STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission on its own motion Northern Illinois Gas Company d/b/a NICOR Gas Company Reconciliation of Revenues collected under Gas Adjustment Charges with Actual Costs prudently incurred	)	Docket No. 01-0705
Illinois Commerce Commission on its own motion Northern Illinois Gas Company d/b/a NICOR Gas Company Proceeding to review Rider 4, Gas Cost, pursuant to Section 9-244(c) of the Public Utilities Act	)	Docket No. 02-0067
Illinois Commerce Commission on its own motion Northern Illinois Gas Company d/b/a NICOR Gas Company Reconciliation of Revenues collected under Gas Adjustment Charges with Actual Costs prudently incurred	)	Docket No. 02-0725

REVISED

DIRECT TESTIMONY ON REOPENING

OF

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Illinois Commerce Commission

Energy Division—Policy Section

November 23, 2010
~~**August 14, 2009**~~

Table of Contents

I. WITNESS QUALIFICATIONS 1
II. PURPOSE OF TESTIMONY AND BACKGROUND INFORMATION 2
III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS 5
IV. CORRECTIONS AND ADJUSTMENTS TO STORAGE INVENTORY, GAS COSTS, AND THE PBR BENCHMARK 10
A. LIFO-DERIVED SAVINGS 10
1. Basic Explanation of the LIFO Savings Issue 10
2. Recommended Refund of LIFO Savings 21
B. STORAGE CREDIT ADJUSTMENT 24
1. In-field Transfers 26
2. NGPL DSS Storage Withdrawals by IMD for Nicor Gas 37
C. AFFILIATE TRANSACTIONS 40
D. NICOR'S DISCOUNT ON A GAS SALE TO AQUILA IN EXCHANGE FOR A DISCOUNT ON A NON-PGA PURCHASE OF WEATHER INSURANCE 44
E. IMPROPER INCLUSION IN THE PGA OF CARRYING CHARGES ASSOCIATED WITH MANAGED STORAGE DEALS USING RELEASED NGPL STORAGE 46
F. ERROR IN THE REPORTING OF DELIVERIES OF PGA GAS TO CUSTOMERS 48
G. EXCLUSION OF HUB REVENUES FROM THE PGA 49
H. ACCOUNTING ADJUSTMENTS 52
I. STAFF WITNESS MAPLE'S ADJUSTMENTS 53
J. ADJUSTMENT RELATED TO THE TWO-PERCENT OF STORAGE WITHDRAWALS ASSUMED BY NICOR TO BE LOST 53
K. NET INTEREST ON FACTOR O REFUNDS/SURCHARGES 54

List of Attachments

ATTACHMENT 1: SUMMARY BY ISSUE 56
ATTACHMENT 2: SUMMARY BY YEAR 57
ATTACHMENT 3: INTEREST CALCULATIONS 58
ATTACHMENT 4: 1999 DETAILS OF PGA COST REVISIONS 59
ATTACHMENT 5: 2000 DETAILS OF PGA COST AND PBR SAVINGS REVISIONS 60
ATTACHMENT 6: 2001 DETAILS OF PGA COST AND PBR SAVINGS REVISIONS 61
ATTACHMENT 7: 2002 DETAILS OF PGA COST AND PBR SAVINGS REVISIONS 62

List of Tables

TABLE 1. THE MONTHLY MARKET INDEX (MI) THROUGHOUT THE PBR 22
TABLE 2. LIFO-DERIVED SAVINGS (POST ACCOUNTING RESTATEMENT) 24
TABLE 3. INFIELD TRANSFERS DERIVED BY STAFF 28
TABLE 4. STORAGE CREDIT ADJUSTMENT RATES AND ANNUAL IN-FIELD TRANSFERS 30
TABLE 5. STORAGE CREDIT RATES IMPLIED BY 12-MONTH FUTURES STRIP COMPARED WITH ACTUAL 31
TABLE 6. IMPACT OF ACCOUNTING FOR DSS STORAGE WITHDRAWALS BY IMD FOR NICOR GAS 40
TABLE 7. EFFECT ON RATEPAYERS OF AFFILIATE DISCOUNT DEAL 44
TABLE 8. EFFECT ON RATEPAYERS OF THE WEATHER INSURANCE FOR GAS DISCOUNT DEAL 46

List of Figures

FIGURE 1. JANUARY IN-FIELD TRANSFERS 29

I. Witness Qualifications

Q. State your name and business address.

A. Richard J. Zuraski, Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois, 62701.

Q. By whom are you employed and in what capacity?

A. I am employed by the Illinois Commerce Commission ("Commission") as a Senior Economist in the Energy Division's Policy Program.

Q. What are your responsibilities within the Energy Division's Policy Program?

A. I provide economic analyses and advise the Commission on issues involving the gas and electric utility industries. I review tariff filings and make recommendations to the Commission concerning those filings. I provide testimony in Commission proceedings. In selected cases, I sometimes act as an assistant to Commissioners or to administrative law judges.

Q. State your educational background.

A. I graduated from the University of Maryland with a Bachelor of Arts degree in Economics. I obtained a Masters of Arts degree in Economics from Washington University in St. Louis. I completed other work toward a doctorate in economics from Washington University, but did not complete all requirements for that degree.

Q. Describe your professional experience.

A. Since December 1997, I have been a Senior Economist in the Policy Program of the Commission's Energy Division. I held the same position from February 1990 to

December 1997, in the Commission's Office of Policy and Planning (prior to its incorporation into the Energy Division). Before that, I held positions in the Commission's Least-Cost Planning Program and Conservation Program. While employed by the Commission, I have testified in numerous docketed proceedings before the Commission. Prior to coming to the Commission in November 1987, I was a graduate student at Washington University, where I taught various courses in economics to undergraduate students in the Washington University night school and summer school.

II. Purpose of Testimony and Background Information

Q. What is the subject matter of your testimony on reopening?

A. This testimony concerns the investigation by Staff members assigned to this case ("Staff") of Nicor Gas Company ("Nicor Gas" or "the Company"), the costs included in the Company's purchased gas adjustment clause ("PGA") in 1999 through 2002, and the Company's Gas Cost Performance Program ("GCPP" or "Program"), which was in effect in 2000, 2001, and 2002. This investigation started following the revelation by CUB of a fourteen-page fax ("the whistle-blower fax"). The fax had been sent to CUB on June 21, 2002 by an anonymous source who accused Nicor of certain perceived improprieties surrounding the GCPP.

Q. In a case like this, what do you rely upon to conduct your investigation?

A. To a large extent, I rely upon information provided by the utility. I send out data requests and rely upon utility personnel being forthright and accurate in their responses. Typically, there is no independent third party source. The information I need is about the public utility and is only available from the public utility. In this case, I also relied upon the deposition testimony of a number of Nicor employees and officers, In this case, I also had access to the Whistle Blower Fax and the "Report of the Special Committee of the Board of Directors of NICOR Inc.," by Scott Lassar of Sidley Austin Brown & Wood, LLP, dated October 28, 2002 ("the Lassar Report"),[1] both of which I utilized only to identify potentially fruitful lines of inquiry.

Q. Please provide a brief history of GCPP proceedings before the Commission.

A. The GCPP was approved by the Commission at the end of November 1999, in its Docket 99-0127 Order, and went into effect on January 1, 2000. Two years later, the Commission initiated Docket 02-0067, pursuant to Section 9-244 (c), to determine whether the GCPP was meeting its objectives and to identify any revisions necessary to result in the program meeting its objectives. Testimony was filed and the record marked heard and taken. After the existence of the whistle-blower fax was brought to the Commission's attention, eventually Docket 02-0067 was reopened and consolidated with the PGA reconciliation dockets 01-0705 (2001) and 02-0067 (2002). Since the Company and Staff have both identified adjustments to the 1999 and 2000 PGAs, arising from this investigation, the 1999 and 2000 PGA reconciliation dockets should also be reopened after the Commission makes a decision in this proceeding.

Q. Please provide an overview of the GCPP.

A. The GCPP is a performance-based regulation ("PBR") program in which the Company shares in gas cost "savings" (whether they are negative or positive).[2] Savings are defined as the difference between a multi-part benchmark (which I will describe in the next question and answer) and the actual gas costs that are accounted for using the

[1] ~~Staff Ex. 2, Att. I~~Stipulated Exhibit 6

[2] In this testimony, I use the terms "GCPP" and "the PBR program" interchangeably.

standard PGA. The computation of savings takes place at the end of the calendar year and the Company's share of savings is added into (for positive savings) or subtracted from (for negative savings) the following year's rates. The Company's share is 50 percent.

Q. Please provide an overview of the multi-part benchmark used in this Program.

A. The GCPP's benchmark gas cost is: a "Market Index Cost" minus a "Storage Credit Adjustment" plus a "Firm Deliverability Adjustment" plus a "Commodity Adjustment."

The Market Index Cost ("MIC") is the sum (over the 12 months of the year) of a monthly market price index times the actual monthly quantity of gas delivered to customers. The monthly market price index is an average of several different daily and first-of-the-month published price indexes.

The Storage Credit Adjustment ("SCA") represents the difference in the value of gas when it was withdrawn from storage and the value of gas when it was injected into storage. This difference fluctuates from year to year simply due to the movement in market prices. The SCA, for any given year, equals a weighted average price differential times the actual annual withdrawals from storage. The weights were fixed in Docket 99-0127.

The Firm Deliverability Adjustment ("FDA") represents various costs accounted for within the purchased gas adjustment clause that are more dependent upon forecasted maximum demand levels than actual demand levels. In Docket 99-0127, the Commission set the level of the "FDA" at a lump sum of $116,582,612 per year (where it remained throughout the life of the program).

The Commodity Adjustment ("CA") is basically a catch-all or residual adjustment. In Docket 99-0127, a CA rate was set to a level of 1.68 cents per MMBTU, which, on average, over several historical years, would have equated the total benchmark gas costs with the Company's actual historical gas costs. That is, the average savings would have been zero. During each of the three years that the Program was in existence, the CA has been 1.68 cents per MMBtu times the actual number of MMBtu delivered to customers during the year.

III. Summary of Conclusions and Recommendations

Q. Please summarize your conclusions and recommendations.

A. According to Nicor witness Bartlett, "Nicor Gas is seeking Commission approval to collect a net amount of $5,963,283 from its customers." (Bartlett Direct, Nicor Gas Ex. 1.0, p.5). In contrast, Staff is seeking a refund to customers of $100,247,659. This refund is due to numerous adjustments, which I summarize as follows:

A) From the start of Docket 99-0127, through June of 2002 in Docket 02-0067, the Company withheld crucial information concerning plans to tap into low cost LIFO (last-in first-out) layers in storage inventory. Of course, LIFO is an abstract accounting concept rather than a physical aspect of storage inventories. In essence, the Company discovered a way to profit through the GCPP with virtually no effort, through net withdrawals of old gas (purchased well before the PBR program went into effect) that originally cost the Company less than 40 cents per MMBTU. Under the GCPP, this old 40 cent gas would be compared to a contemporary market price index that ranged between $2 and $10 per MMBTU. Under such circumstances, creating "savings" could not have been easier. Subsequent Company-proposed accounting adjustments--reversing the original accounting of a 1999 sale to a firm called IMD of NGPL storage gas and of various "pre-fill" deals--had a significant effect on the size of the net withdrawals (in fact, eliminating them for 2001). However, in 2000 and 2002, even after those accounting adjustments, there are still significant net withdrawals of the old inexpensive gas. I recommend that the Commission modify the share-the-savings formula for 2000 through 2002 to eliminate the Company's share of savings due specifically to the difference between the market cost of gas and the revised inventory price of the revised net withdrawals from storage. The effect of this adjustment is a refund to customers of $21,871,934. No comparable adjustment is included in the Company's reopening testimony.

B) The 2000 through 2002 GCPP benchmarks (specifically, the storage credit component of the benchmarks) were improperly and inaccurately computed by the Company, leading to substantial errors in the computation of "savings" under the Program. In particular, the Company improperly subtracted "infield transfers" from gas withdrawals. In addition, except when it added back "virtual storage," the Company improperly ignored storage withdrawals by IMD (the firm to which Nicor Gas released substantial quantities of storage capacity just prior to the beginning of the program). Furthermore, the Company failed to inform the Staff about these matters until some time after July 2002. These errors generally raised the benchmark and thus inflated the computation of "savings." The Company now proposes several changes in the benchmark that only partially address Staff's concerns. Over the three years of the PBR program, the Company's originally-computed storage credit component of the benchmark led to a combined credit (2000 through 2002) of about

$2 million. In contrast, the Company's re-opening restatement of the benchmark leads to a combined storage credit of about $38 million. However, my computations lead to a combined storage credit of about $79 million. Given the 50-50 sharing formula, the effect of my adjustment is a net refund of $38,520,976. Compared to the Company's reopening testimony, this amounts to an additional refund of $20,607,725.

C) Nicor Gas took actions that ~~knowingly~~ led to an increase in the cost of gas included in the PGA by engaging in at least one transaction with an affiliate (NICOR Enerchange) in which Nicor Gas sold gas to Nicor Enerchange for future delivery at a price demonstrably less than the spot price of gas at the time of the transaction, the prevailing prices of futures contracts for the delivery months, and the eventual spot prices prevailing at the time of actual delivery. I recommend that the $8,517,172 of excess costs incurred as a result of this transaction be subtracted from allowable PGA gas costs. This leads to an additional refund to customers of $4,258,586 (half the excess costs incurred as a result of this transaction). No comparable adjustment is included in the Company's reopening testimony.

D) The Company took actions that ~~knowingly~~ led to an increase in the cost of gas included in the PGA by engaging in at least one transaction where Nicor Gas received a discount on a non-PGA purchase of weather insurance in exchange for providing the vendor (Aquila) with a discount on a sale of gas. I recommend that the $6,115,050 increase in gas costs that resulted from this transaction be subtracted from allowable PGA gas costs. This removal leads to a refund of $3,057,525 (half the estimated increase in gas costs). In comparison, the Company makes an adjustment associated with the Aquila transaction, but computes it to be only $1 million, so my adjustment amounts to an additional refund of $2,057,525 not included in the Company's reopening testimony.

E) The Company structured several deals--involving the release of NGPL purchased storage--that shifted the burden of carrying charges from the Company's base rate accounts to the PGA accounts. Arguably, the Company recovered carrying costs both in its existing base rates <u>and</u> in the PGA. In any event, recovery of carrying costs through the PGA is not permitted under Commission rules. Thus, I recommend the reversal of the inclusion of these carrying charges in the PGA. This reversal leads to a refund of $2,049,913 (half the carrying charges removed from the PGA). No comparable adjustment is included in the Company's reopening testimony.

F) The Company made an error in the reporting of 2001 deliveries of PGA gas to customers. This error increased the benchmark and thus inflated the computation of 2001 "savings" by approximately $2.3 million, leading to an overpayment by ratepayers of one-half this figure. I recommend that ratepayers receive a refund for the 2001 overpayment to the Company. The Company's re-opening restatement of the 2001 benchmark adequately addresses this concern and results in a refund of $1,160,484, which the Staff accepts.

G) The Company erred by excluding certain Nicor Hub services revenues from the PGA. Correcting for this leads to a cost reduction adjustment of approximately $10.3 million between the beginning of 1999 and the end of 2002, with about $1.9 million of that total applicable to 1999, and the remaining $8.4 million of that total applicable to the PBR period 2000-2002. After taking into account the effect of the GCPP's 50-

50 sharing mechanism, the refund due to ratepayers would be $6,150,917. No comparable adjustment is included in the Company's reopening testimony.

H) As noted earlier, the Company made several accounting adjustments, which had effects on both the storage credit adjustment component of the benchmark and on costs. The changes with respect to the storage credit adjustment component of the benchmark have already been discussed (see item B, above). The accounting restatement's direct effect on gas costs was a decrease of $13,751,764 in 1999 and an increase of $57,622,435 in 2000 through 2002. Taking all of the former and one-half of the latter, the net change in the PGA gas costs, after PBR sharing, is $15,059,454. This net increase is due primarily to less of the low-cost gas being withdrawn from older LIFO layers of the storage inventory. Staff is not disputing this restatement.

I) According to Staff witness Maple, there should be additional refunds of $10,584,907 due to adjustments to the benchmark in 2000 through 2002, as well as to gas costs in 1999. No comparable adjustment is included in the Company's reopening testimony.

J) According to Staff witness Knepler, there should be additional refunds associated with lost storage gas, the cost of which the Company has been including in the PGA. In consultation with Mr. Knepler, I computed the cost of this lost storage gas and removed it from recoverable PGA costs. This leads to an adjustment of $18,667,265. No comparable adjustment is included in the Company's reopening testimony.

Summary. To summarize, all the above adjustments amount to a subtotal of $91,263,052 to be refunded to customers. After netting off (i) a Company-computed undercharge of $1,329,699 from the originally booked 2001 savings and (ii) the

Company's originally-computed 2002 PBR savings of $26,875,870[3], and then adding (iii) a Company-computed $18,793,860 "PGA Adjustment to reflect 2002 Final Gas Costs, the total amount to be refunded, before taking into account interest, is $81,851,343. Taking into account interest accrued through December 31, 2009, pursuant to 83 Ill. Adm. Code 280.70, the final Staff proposed refund is equal to $102,569,024. These figures are presented in tabular form in varying degrees of detail in the seven attachments found at the end of this testimony.

IV. Corrections and Adjustments to Storage Inventory, Gas Costs, and the PBR Benchmark

A. LIFO-derived Savings

1. Basic Explanation of the LIFO Savings Issue

Q. What was the plan for generating easy no-risk savings by tapping into low-cost LIFO layers of its storage inventory?

A. At the end of 1998, just before the Company made its GCPP filing, there was a significant range in the per unit gas costs of its gas in storage. The following table shows the years in which annual injections exceeded annual withdrawals, the per unit cost of gas associated with each of these "LIFO layers," and the number of therms in each layer.

[3] The Company did not seek to recover its share of the originally-computed 2002 savings during 2003, so the amount remains uncollected, to date. Adjustments in my testimony lead to a corrected version of 2002 savings.

Year(s) of net injection	LIFO Layer Prices *$/Therm*	31-Dec-98 *Therms*
2/1/54	0.01882	350,145
2/1-12/31/54	0.02142	6,801
1955	0.02388	29,967
1956	0.02391	24,171
1959	0.02565	477,564
1960	0.02872	530,700
1961	0.02958	27,198
1962	0.02857	38,230
1963	0.02936	12,315,551
1964	0.02895	27,585,092
1965	0.02884	63,629,015
1966	0.02802	28,141,967
1967	0.02818	3,543,990
1968	0.02628	165,383,411
1969	0.02881	71,993,124
1970	0.03102	282,791,456
1971	0.03638	52,837,489
1973	0.04541	35,397,594
1984	0.32315	166,310,843
1996	0.28757	101,399,732

A net injection in any given year creates a new inventory layer, based on the average cost of purchases in that year. Conversely, a net withdrawal (not shown in the table) results in an inventory reduction, on a last-in first-out (LIFO) basis. Thus, the most recent layers are depleted first. As the 1999 gas year was beginning, there was a significant difference between the price of gas in the last two layers (1996 and 1984) and all the layers created prior to 1984.

Since July 2002, it became clear to Staff that the Company placed great significance on the opportunity presented by PBR to tap into the difference between contemporary market prices, which would be reflected in the PBR benchmark, and the extremely low prices that were embedded in the Company's pre-1984 storage inventory layers.[4] The Company was clearly developing the strategy as early as October 1998,

[4] For example, in a Post Board Information Meeting agenda handout,

when a so-called "Inventory Value Team" issued a report to upper management at Nicor focusing on this opportunity.[5] About four months later, on March 1, 1999, the Company filed its petition to initiate the PBR program.

To maximize shareholders' ability to profit from the difference between current market prices and the pre-1984 storage inventory prices, the Company first had to find a way to brush aside the last two relatively high-priced LIFO layers (i.e., the 1984 and 1996 layers). It assured this in December 1999 (just days before the PBR program went into effect) by transferring a large quantity of gas (and capacity) from an NGPL storage account to a firm called IMD. Once that was accomplished, though, the Company would be able to show PBR "savings" in 2000 and beyond by engaging in so-called "pre-fill" deals. These pre-fill deals allowed Nicor to maintain normal physical storage operations while still showing extraordinary net withdrawals, due to the manner in which the Company accounted for the deals. The December 1999 transaction and the pre-fill deals will be explained in greater detail later in this section.

Whether Nicor planned all along to generate substantial savings from the low-cost LIFO layers or to simply use them as insurance against other risks, Nicor did in fact end up relying heavily on the LIFO strategy. For 2000 and 2001, prior to the Company's re-opening accounting restatement, the "savings" attributable to the LIFO strategy were

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[redacted] (NIC 115049)

[5] The Inventory Value Team Report (~~Staff Ex. 2.0, Att. A~~Stipulated Exhibit 1) was provided to Staff as NIC ~~003655-003671~~049924-049937, in response to a data request. The first page in the body of the report states, in part, "The 'top' 30% of our LIFO layers are priced at close to market value. The 'bottom' 70% of our LIFO layers are priced significantly below market value. There is about 75 BCF of gas in these lower priced layers, with market value of about $100-200 million in excess of cost. … We recommend that the Company 'capture' the LIFO inventory value by filing and implementing a Gas Rate Performance Plan (GRPP) related to gas costs." (NIC ~~003657~~049926)

approximately $61 million, half of which would be retained by the Company.[6] And yet, prior to July 2002, the Company never revealed the LIFO strategy to Staff. In fact, an internal ~~memoranda~~ memorandum reveals that a key Company employee recognized a need not to highlight the LIFO benefit to Staff ~~the Company was using evasive tactics to keep this information from the Staff and was worried that the Staff might figure out the LIFO strategy on its own~~.[7] This planned evasiveness about the LIFO strategy was corroborated by several Nicor employees and managers during depositions.[8] The evasive

[6] In comparison to the $61 million in pre-restatement LIFO strategy savings, total pre-restatement savings over the first two years was about $54 million; so all other strategies combined produced net losses of about $7 million.

[7] ***~~First~~***, i [redacted] (Stipulated Exhibit 19, NIC 011421, last paragraph). ***~~Second~~***, [redacted] ~~(KPMG 024849 - 024853),~~ [redacted] ~~(KPMG 024853)~~

[8] [redacted]

tactics continued even after the whistle-blower memo was revealed (June 2002) and the Company pledged to cooperate with Staff's investigation.[9]

Overall, the strategy seems to have been the Company's proverbial ace-in-the-hole. Indeed, examination of the Company's so-called "Buckets Reports" (which the Company began creating by the first quarter of 2001 but were provided to Staff only after the whistle-blower fax was sent), reveal how the Company would first project its PBR performance without any LIFO decrement, under both best-case and worst-case scenarios, and Nicor would then compute the amount of LIFO inventory it would need to withdraw in order to reach a pre-determined PBR savings goal. For example, in May/June of 2001, a Buckets Report projected 2001 annual PBR performance without the LIFO inventory decrement to range between a worst-case of [redacted]

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[9] For instance, in its October 10, 2002 response to Staff data request ICC 9.02 (h), where Nicor was asked to explain why the Company found it desirable to utilize Customer Owned Prefills rather than simply purchase gas and inject it into storage, the Company never mentioned that the pre-fill deals were the mechanism by which the Company was able to gain control over the LIFO layers. Instead, the Company vaguely noted: [redacted] The Company was also asked, in ICC 9.02 (i), to explain why, over 2000 and 2001, significantly more gas was shown to have been injected as "Customer Owned Prefill" than purchased by the Company as "Prefill Purchases." The real answer is that this is how the Company was able to create net withdrawals within each of those calendar years and hence dip into the LIFO layers. But the Company's response was simply [redacted]

[redacted].[10]

Q. You mentioned that the Company was able to brush aside the last two relatively high-priced LIFO layers by transferring a large quantity of gas (and capacity) from an NGPL storage account to a firm called IMD, in December 1999, days before the PBR went into effect. Would you please elaborate on that transaction?

A. Company records show that Nicor Gas transferred to IMD a significant amount of storage capacity in a DSS storage service account with pipeline company NGPL. Along with the capacity, the Company transferred to IMD 18.8 million MMBTU of gas held in inventory.[11] The transaction significantly contributed to a large net withdrawal from storage inventory in 1999.[12] This net withdrawal enabled the Company to completely eliminate the two high-priced storage inventory layers that existed as of the beginning of 1999: the 29 cent per therm 1996 layer and the 32 cent per therm 1984 layer. As previously noted, this positioned the Company to begin withdrawing the much lower-priced gas in the pre-1984 layers of the inventory during the tenure of the PBR program, where the Company would be able to share in half the “savings” from ostensibly avoiding the purchase of higher-cost gas at contemporary market prices.

Q. What was wrong with this sale to IMD in December 1999?

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[10] KPMG 024442. Another example is [redacted] (NIC 008551). For other examples, see footnote 35.

[11] Before the end of the year, Nicor bought some of that 18.8 million MMBTU of gas back from IMD at the same price, so the net sale in December 1999 was for 16.1 million MMBTU.

[12] The December net sale of 16.1 million MMBTU to IMD formed 58% of Nicor’s 1999 total net withdrawals from storage (pre-restatement).

A. The timing of the sale saddled ratepayers with the entire burden of the high-priced gas layers, after which the Company would then take half the windfall savings associated with withdrawing the remaining low-priced inventory.

Q. How should the December 1999 IMD transaction now be addressed?

A. I believe the Company's accounting restatement adequately addresses the transaction.

Q. How has the Company addressed this sale to IMD in its re-opening accounting restatement?

A. The Company's restatement basically pretends that the sale never took place. Instead, the Company's restatement pretends that the sale to IMD was actually a loan from IMD (in order to account for the influx of cash in December 1999). What were subsequent purchases from IMD are now treated, under the restatement, as "loan" repayments. By reversing the sale to IMD in 1999 and the subsequent repurchases of that gas, the restatement also decreases net withdrawals from storage in 1999 and increases them in 2000. The net effect of the restatement is to postpone until 2000 the inclusion in the PGA of the December 1999 accounting losses. Since half of all losses in 2000 were shared with ratepayers, this approach leads to a net rate reduction of about one-half the original losses (approximately one-half of $13 million).

Q. Earlier, you mentioned the Company's "pre-fill" deals. Can you elaborate on the apparent purpose of these deals?

A. As previously noted, the Company was keen to increase its net withdrawals from its storage inventory during the life of the PBR program. This would generate PBR-recognized "savings" as the GCPP mechanism implicitly compared contemporary market prices to the much lower prices that existed in the 1960s and early 1970s, when the relevant LIFO layers of the storage inventory were created. The pre-fill deals gave the Company greater control over annual net withdrawals, without jeopardizing any operational priorities. In addition, the pre-fill deals enabled the Company to double-collect for carrying charges.

Q. How did the pre-fill deals give the Company greater control over annual net withdrawals?

A. In effect, the strategy was to purchase significant quantities of gas on credit. That is, the seller would deliver the gas to the Company at one point in time, but Nicor Gas would pay them for it at a later point in time. In fact, significant quantities were not paid for until the following year or later. By the end of 2002, the Company had still not paid for most of the gas delivered to the Company as "pre-fill."

From a storage ***accounting*** standpoint, while pre-fill deliveries were contributing to the increase in the Company's storage inventory throughout the year, they were also being explicitly deducted. That is, they were being treated as transportation customer-owned injections and, as such, were deducted from total physical injections. They were not added back again until the Company eventually paid the vendor for the gas. Nevertheless, it is important to understand that the pre-fill deliveries and the later pre-fill purchases are not explicitly tied to any physical storage activity; that is, they cannot be tangibly matched with injections and withdrawals, respectively. From a storage ***accounting*** standpoint, though, subtracting ***X*** therms and always adding back ***less than X*** therms, in any given year, effectively decreases "net injections," or stated equivalently, increases "net withdrawals" for that year. Thus, lagging pre-fill purchases behind pre-fill deliveries enabled the Company to control the size of net withdrawals and extract more from its heirloom LIFO layers.

Q. Is there anything wrong with the pre-fill accounting, described above?

A. This issue is addressed by Staff accounting witness Mary Everson. However, it is my understanding that for most of the pre-fill deals, the accounting process employed by the Company may have violated certain accounting standards, such as FAS49. Thus, much of the pre-fill accounting has been restated by the Company, in many cases resulting in a purchase being recorded at the time of the pre-fill deliveries (rather than at the time of the actual payments). This has a significant effect on the computation of net withdrawals, significantly reducing them. In fact, the restatement completely eliminates net withdrawals in 2001, instead leaving net injections. As previously discussed, the reduction in net withdrawals basically lowered the PBR "savings" associated with tapping into the old low-cost LIFO layers of storage inventory. However, reversing the pre-fill accounting also preserved more of the low-cost gas in inventory, eventually benefiting consumers.

Q. How did the pre-fill strategy enable the Company to double-collect for carrying charges?

A. During rate cases, it is common Commission practice to include a return on rate base, including a return on the cost of gas in storage inventory. For this purpose, a test year is used to compute the average value of gas in inventory. To avoid double-recovery, the Commission's PGA rules prohibit the inclusion and recovery of carrying charges on gas in storage. However, with the pre-fill deals, where the Company purchased gas on credit, the Company either explicitly or implicitly paid carrying charges to vendors for gas delivered to the Company. These explicit and implicit carrying charges associated with the pre-fill strategy were included in the ultimate price paid by the Company, included in the PGA, and recovered from ratepayers. Since this occurred while the PBR program was in effect, Nicor absorbed one-half of these additional carrying charges. However, at the same time, Nicor saved the full amount of carrying costs that it would have incurred had it purchased these quantities at the time of delivery. Thus, Nicor Gas incurred about the same actual carrying charges it would have without the pre-fill deals, received base rate recovery for such carrying charges, and received additional PGA revenue for one-half the actual carrying charges associated with the pre-fill deals. On net, the Company was ahead by approximately one-half the actual carrying charges associated with the pre-fill deals.

Q. What do you recommend as the remedy for this double-collecting for carrying charges?

A. I recommend that the Commission order a refund of one-half the explicit carrying charges associated with the pre-fill deals, which were included in the PGA.

Q. How should the refund for explicit carrying charges be computed?

A. Some of the deals were priced at a current market index (at time of delivery to Nicor Gas) plus explicit carrying charges (up to the time of payment). Thus, it should be a simple matter to alter the accounting entries to increase the PGA when the deliveries took place, and exclude from the PGA any explicit carrying charges. Any subsequent purchases of such pre-fill gas during the 2000-2002 period that were originally included in the PGA would be removed from the PGA. Indeed, this is my understanding of how the Company has reversed the accounting of those pre-fill deals that were explicitly priced at market index at time of delivery plus carrying charges. Thus, the exclusion of the explicit carrying charges occurs automatically with those corrections.

Unfortunately, not all of the pre-fill deals were priced at the current market index plus carrying charges, and some that were priced in this manner were later converted to other types of deals. For instance, some of the deals were originally or later converted to be pegged to the future value of market indexes, and did not include explicit carrying charges. In such cases, removing carrying charges would have to rely upon assumptions about the level of carrying charges implicitly included in the purchase price paid by Nicor Gas. Staff has decided not to pursue refunds for such implicit carrying charges.

Q. Were there any long-run implications of the LIFO layer depletion strategy?

A. Presumably, once the PBR program ended, the Company would eventually refill the inventory at contemporary market prices, creating a whole new set of 21^{st} century LIFO layers.[13] As I stated previously, base rates normally include a return on the cost of gas in storage inventory. Thus, it follows that, at the Company's next rate case, the Company would include the higher-priced inventory in rate base and attempt to recover the resulting higher revenue requirements through base rates. Furthermore, at some point, future net withdrawals from storage would include the higher-priced gas in the new 21^{st} century LIFO layers, and ratepayers would pay 100% of the cost of those higher-priced layers in such years. Hence, the LIFO strategy would not so much reduce gas costs as move them around temporally (lowering PGA costs during the life of the PBR

[13] A presumption substantiated by [redacted].

program, when the Company would share the "savings," and most likely increasing base rates and PGA rates at a later date).

Q. Should the GCPP have been modified to account for the LIFO strategy?

A. Yes. There is no question that the PBR mechanism as proposed by the Company (and largely adopted by the Commission), was completely blind to the Company's ultimate plan and ignored the value of gas in storage inventory. The LIFO strategy was an accounting trick to take advantage of historical differences in market prices, and not an actual change in the physical operation of storage. The LIFO strategy did not reflect any improvements in efficiency or gas purchasing acumen. Hence, gas volumes and costs associated with net storage injections and withdrawals should have been excluded from the PBR savings calculation.

2. Recommended Refund of LIFO Savings

Q. Do you recommend any adjustments associated with the LIFO-derived savings?

A. Yes. I recommend that the Company not be permitted to retain the 50% share of LIFO-derived savings otherwise bestowed upon Nicor by the PBR sharing mechanism. That is, I recommend that the Commission modify the share-the-savings formula to eliminate the Company's share of savings due specifically to the difference between the market cost of gas during the life of the PBR and the original cost of gas associated with net withdrawals. However, the level of those LIFO-derived savings is dependent upon the method of accounting for (1) the December 1999 sale to IMD, as well as (2) the subsequent pre-fill deals that were entered between 2000 and 2002, both of which changed with the Company's accounting restatement. For each of the PGA years under review, the restatement changes both the quantity as well as the average LIFO cost of net withdrawals. Prior to the Company's re-opening accounting restatement, there were net withdrawals in 2000, 2001 and 2002. Following the re-opening accounting restatement, net withdrawals are eliminated in 2001 and reduced in 2000 and 2002. Furthermore, prior to the restatement, 100% of the net withdrawals in 2000 through 2002 were from old low-priced LIFO layers. After the restatement, the net withdrawals in 2000 and 2002 are from a mix of old low-priced LIFO layers and newer more expensive layers. Nevertheless, even after the accounting restatement, there are still significant savings that can be directly attributable to net withdrawals.

Q. Have you computed the Company's 50% share of the net withdrawal savings existing in 2000 and 2002, following the Company's accounting restatement?

A. Yes. To perform this computation, one must make assumptions about when the net withdrawals actually occurred because market prices vary significantly, as shown below in the table of market index values used for the PBR benchmark.

Table 1. The Monthly Market Index (MI) throughout the PBR

	2000 MI	2001 MI	2002 MI
Jan	$2.4376	$10.0864	$2.5345
Feb	$2.6742	$6.3332	$2.1139
Mar	$2.7139	$5.2906	$2.6458
Apr	$2.9762	$5.4986	$3.4112
May	$3.2948	$4.7718	$3.4548
Jun	$4.4499	$3.8000	$3.3080
Jul	$4.3087	$3.1439	$3.1537
Aug	$4.0952	$3.1292	$2.9433
Sep	$4.8578	$2.2871	$3.2897
Oct	$5.3486	$2.0803	$3.8263
Nov	$4.9498	$2.9264	$4.2151
Dec	$7.3849	$2.4109	$4.3794
Avg	$4.1243	$4.3132	$3.2730

One approach would be to use the simple average of the market index values, which would yield $4.12 and $3.27 (per MMBTU) in 2000 and 2002, respectively. However, the main component of the benchmark is the Market Index Cost (over the three PBR years, comprising over 90% of the total benchmark), and the Market Index Cost is the sum (over the 12 months of the year) of the monthly market price index times the actual monthly quantity of gas delivered to customers. Hence, I recommend valuing annual net withdrawals using the weighted average of the monthly market price index, using deliveries to customers as the weights. This recommended approach yields weighted averages of $4.26 and $3.25 (per MMBTU) in 2000 and 2002, respectively.

In comparison, the inventory withdrawal prices (as revised by the Company) were $2.87 and $1.32 (per MMBTU) in 2000 and 2002.[14] As shown in the table, below, when the difference in the weighted average market index and the inventory withdrawal price is multiplied by the net withdrawals for each of the two years, the estimated savings due to tapping into the LIFO layers is $24,356,401 for 2000 and $19,387,467 for 2002, or $43,743,869 in total. I propose that the Company's half (which is implicitly included in the revised computation of PBR savings) be credited back to ratepayers, amounting to an additional refund of $21,871,934. It is notable that, without the accounting restatement of the pre-fill deals and the December 1999 sale to IMD, the original savings due to tapping into the LIFO layers in 2000, 2001, and 2002 were about twice the above value.

[14] These revised inventory withdrawal prices represent a weighted average of more than one LIFO layer--some older relatively low-priced layers and some newer layers at contemporary prices. Originally, prior to the Company's accounting restatement, the inventory withdrawal prices for 2000 and 2001 were only 39 cents and 31 cents per MMBTU, respectively, while 2002 would also have been 31 cents per MMBTU.

Table 2. LIFO-derived Savings (Post Accounting Restatement)

Year	2000	2002	Total
Inventory Withdrawal Price ($/Therm)	0.2866	0.1324	
Weighted Avg Market Index Price ($/Therm)	0.4257	0.3246	
Price Difference ($/Therm)	0.1392	0.1922	
x Net Withdrawals (Therms)	175,019,597	100,879,026	275,898,623
=	$24,356,401	$19,387,467	$43,743,869

B. Storage Credit Adjustment

Q. Please remind us of the role of the storage credit adjustment in the PBR program?

A. Recall that the Storage Credit Adjustment ("SCA") represents the difference in the value of gas when it was withdrawn from storage and the value of gas when it was injected into storage. To represent this value, the SCA uses fixed monthly weights and actual monthly market prices to compute an annual storage credit rate, which is then multiplied by actual annual storage withdrawals. Thus, this SCA fluctuates from year to year due to the movement in market prices and to changes in annual storage withdrawals. When the SCA is positive, it implies that gas was more valuable during the withdrawal season than the injection season and thus, the use of storage is likely to decrease costs. Hence, the SCA is subtracted from the other components of the benchmark (so an increase in the SCA is a decrease in the benchmark, while a decrease in the SCA is an increase in the benchmark).

Q. Please explain what the Company did wrong in computing the storage credit adjustment.

A. My analysis reveals that the Company's practices hid a significant portion of storage withdrawals. As shown later in this testimony, this had the effect of slightly increasing the SCA and decreasing the benchmark in 2000 and 2002 (bad for the Company because it ***reduced*** computed savings), but more significantly decreasing the

SCA and increasing the benchmark in 2001 (good for the Company because it ***increased*** computed savings).

Q. How did the Company's practices hide a significant portion of storage withdrawals for sales customers?

First, the Company adjusted withdrawals by subtracting "in-field transfers." In subsection 1, below, I will argue that the Company's in-field transfer adjustments should not be made because no such adjustments were made prior to the inception of the GCPP, including the historical period upon which the Program's Commodity Adjustment was based. In Docket 99-0127, if in-field transfers had been accounted for during the historical period upon which the Commodity Adjustment was based, the implied historical storage savings would have been smaller and hence the computed Commodity Adjustment also would have been smaller. Had the Company subtracted in-field storage transfers from the storage withdrawal data used in Docket 99-0127, it would be justified in making similar adjustments to the 2000 through 2002 storage data. However, the Company just started making these in-field transfer adjustments since the GCPP went into effect. "In-field transfers" are not new. In fact, by examining storage injection and withdrawal data from January 1995 through December 2002, there does not appear to be a significant difference in the amount of in-field transfers before and after the GCPP went into effect. The only change since the GCPP went into effect is that Nicor Gas began explicitly accounting for the in-field transfers and began using them as the basis for reducing the volumes used in the storage credit adjustment.

Second, since the GCPP was approved toward the end of 1999, Nicor Gas released significant quantities of NGPL purchased storage capacity to third parties. As the third parties withdrew gas out of these NGPL storage accounts, they no longer appear as the Company's storage withdrawals. Instead, they appear as Company purchases. Hence, the storage credit adjustment is reduced proportionally. The Company did not necessarily adopt this strategy simply to alter the benchmark. The Company may have been counting on the third parties to better manage the storage resources and create savings opportunities through such improved management. Nevertheless, as I argue in subsection 2, below, the Company was still expected to benefit from that use of storage and should have accounted for the withdrawals in computing the GCPP benchmark. Notably, in 2000, when the storage credit rate turned out to be "inverted" and the Company stood to gain by increasing reported withdrawals, the Company took steps to partially reverse the hidden withdrawals associated with the released NGPL capacity. Specifically, under the name "virtual storage," the Company made a positive accounting adjustment of the same magnitude to both withdrawals and injections.

Q. How do you propose to remedy the problems that you identified with respect to the storage credit adjustment?

A. Both the in-field transfers and the withdrawals from NGPL storage managed by third parties, which the Company excluded, should be added back into the computation of "withdrawals" for purposes of computing the storage credit adjustment component of the benchmark. These two separate but related issues are addressed more fully in the following two sub-sections.

1. <u>In-field Transfers</u>

Q. What is an in-field transfer?

A. From the Company's response to Staff data request ICC 6.05 on September 10, 2002,

> *Storage volumes are transferred between storage fields when Nicor Gas physically withdraws gas from one or more storage fields on the same day that it is physically injecting gas in other storage fields. In-field transfers result in physical injections and withdrawals and are undertaken for operational reasons related to storage field management.*

Q. Have you examined the data supporting the Company's identification of specific quantities of in-field transfers?

A. Yes. First, in response to a Staff data request, the Company provided a series of memoranda that noted specific dates upon which in-field transfers took place in 2000 and 2001 (NIC 010143-010154) and in response to ICC 1.09, the Company provided, among other data, a monthly summary of in-field transfers for 1995 through 2002. These responses reveal that the Company did not attempt to identify any in-field transfers prior to 2000, and that it identified in-field transfers in only one month in 2000, ten months in 2001, and no months in 2002.

Second, by examining daily data on storage injections and withdrawals provided in response to Staff data request ICC 1.11, I sought to independently find evidence that in-field transfers had taken place during the period 1995 through 2002. In accordance with the Company's own definition, I looked for when "Nicor Gas physically withdraws gas from one or more storage fields on the same day that it is physically injecting gas in other storage fields." When injections in some fields and withdrawals in other fields were both positive on the same day, I quantified the in-field transfer as the minimum of the injections and withdrawals on that day. For any given month, in-field transfers would be the sum of those daily minimums of injections and withdrawals. The results of this analysis are summarized in the table, below.

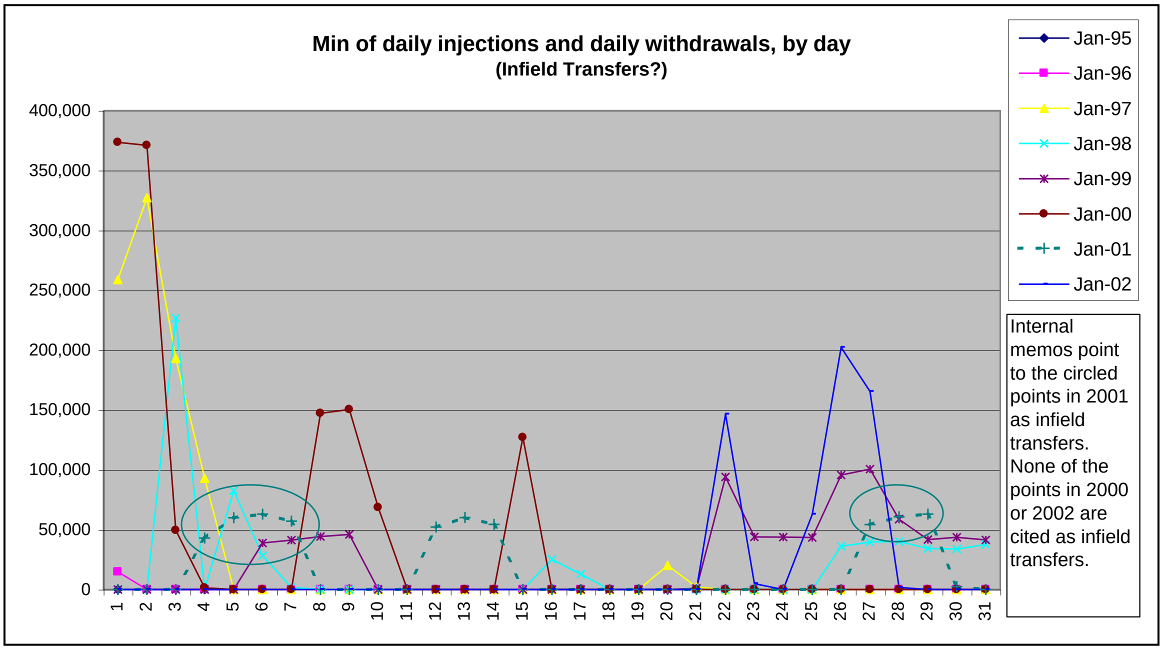
Table 3. Infield Transfers Derived by Staff

Infield Transfers derived from ICC 1.11 data								
Sum of Sum	Yr							
Mo	***1995***	***1996***	***1997***	***1998***	***1999***	***2000***	***2001***	***2002***
1	0	14,743	894,224	598,936	778,161	1,288,633	570,320	583,520
2	0	1,978,779	236,391	488,477	914,885	1,495,855	0	0
3	1,067,409	2,587,064	443,846	434,134	275,780	1,452,503	417,382	153,255
4	1,679,530	1,505,363	1,348,731	1,416,485	264,151	1,546,261	844,079	268,468
5	987,187	38,340	1,344,449	1,342,331	473,075	1,011,810	121,236	1,281,558
6	779,550	0	715,789	962,269	1,490,638	354,682	292,271	866,111
7	125,775	461,800	168,982	1,418,278	790,976	269,865	0	215,065
8	39,612	325,234	0	754,227	508,088	530,505	291,528	0
9	31,913	0	58,535	157,033	0	0	524,230	0
10	0	463,375	914,981	696,964	4,453,283	1,508,269	1,500,161	2,178,679
11	7,645,570	5,265,449	3,966,149	4,861,831	5,250,395	3,811,645	5,678,595	4,446,742
12	819,588	3,443,918	0	0	2,817,273	506,406	2,768,109	617,217
average	1,098,011	1,340,339	841,006	1,094,247	1,501,392	1,148,036	1,083,993	884,218
Total	13,176,134	16,084,065	10,092,077	13,130,965	18,016,705	13,776,434	13,007,911	10,610,615

Using this methodology, I came relatively close to deriving the same level of in-field transfers originally reported by the Company for 2001; however, my results and the Company's originally reported in-field transfers diverge significantly for 2000 and 2002.[15] For example, note the graph of daily in-field transfers for January of years 1995 through 2002, shown in the figure below. The days specifically cited as infield transfers in internal Nicor memoranda (and excluded from withdrawals in the PBR's storage credit adjustment computations) are circled. Although Nicor's internal memoranda only cite in-field transfers for 2001, the data nevertheless reveal even greater in-field transfer activity in 2000 and 2002.

[15] Following the Lassar Report (~~Staff Ex. 2.0, Att. I~~ (Stipulated Exhibit 6), October 28, 2002, p. 52 (NIC 049853)), the Company restated in-field transfers for 2002 using apparently the same methodology that I used—getting the same results.

Figure 1. January In-field Transfers



Broadly speaking, my analysis also shows that the same general level of in-field transfers existed for **all** the years in the ICC 1.11 daily storage data (1995 through 2002). In other words, in-field transfers are not new. The Company's explicit identification and quantification of them appears to be the only thing new. The Company only began this identification and quantification when doing so enabled the Company to compute and share in greater "savings" under the GCPP. Furthermore, the Company's specific identification of in-field transfers appears to have been the most vigorous in 2001, when it benefited the Company the most.

Q. Why did it benefit the Company the most to identify in-field transfers in 2001?

A. In-field transfers reduced both injections and withdrawals equally. Thus, they have no effect on the accounting of gas costs, but they do have an effect on annual withdrawals, which is a component of the SCA. The other component of the SCA is the winter-summer price differential. In 2001, there was a significantly positive winter-summer market price differential. Therefore, reducing reported withdrawals for 2001 would reduce the storage credit adjustment component of the benchmark, thus increasing the overall benchmark and the Company's reporting of "savings." In contrast, the winter-summer differential was negative in 2000 and 2002, so that reducing reported withdrawals would increase the storage credit adjustment, thus lowering the overall benchmark and savings. The following table shows the actual SCA rate for each of the years the PBR program was in effect, along with the total infield transfers originally reported by Nicor.

Table 4. Storage Credit Adjustment Rates and Annual In-field Transfers

Year	SCA Rate (per MMBTU)	In-Field Transfers Originally Reported by Nicor (MMBTU)	In-Field Transfers Computed by Staff from ICC1.11 data (MMBTU)
2000	($0.686)	738,661	13,776,434
2001	$2.750	12,059,367	13,007,911
2002	($0.326)	0	10,610,615

Q. Was the Company aware of the winter-summer differentials when it went about the process of identifying (or ignoring) in-field transfers?

A. I don't know the answer to that. However, even before each of the years began, futures market prices could have given the Company a clue to projecting the SCA rate. The following table shows the storage credit adjustment rates that would have been projected by the 12-month strips of futures prices that existed just prior to the start of each year. As one can see, the implied SCA rate for 2000 and 2002 were relatively small, compared to the implied SCA rate for 2001, which was almost as large as the actual SCA by the end of the year.

Table 5. Storage Credit Rates
Implied by 12-month Futures Strip Compared with Actual

Year	Futures Transaction Date	SCA Rate Implied by Futures	Actual SCA Rate
2000	12/28/1999	$0.043	($0.686)
2001	12/27/2000	$2.469	$2.750
2002	12/27/2001	($0.006)	($0.326)

Q. Do you have any reason to suspect that the Company was specifically identifying and quantifying in-field transfers for purposes of manipulating the PBR benchmark?

A. Yes, I would point to the Lassar Report, where it refers to [redacted]. The report states

> *[redacted] says [redacted] felt pressured to record in-field transfers. [redacted] attended daily meetings where the operational needs of the aquifers [subsurface geological formations used for gas storage] and the ratepayer needs were discussed. ~~In the fall of 2001,~~ [redacted] ~~says individuals from Gas Supply at these meetings made comments that transfers which~~ [redacted] ~~stated would occur on the given day should be categorized as in-field transfers.~~*[16]

According to the Lassar Report, [redacted] said that individuals from Gas Supply made comments at these meetings in the fall of 2001 "that transfers which [redacted] stated would occur on the given day should be included as infield transfers." [redacted] said that [redacted] could not recall the names of anyone who pressured [redacted] at the morning meetings,[17] but an individual in Gas Supply confirmed for the Lassar investigation that [redacted] had discussed the categorization of transfers at these meetings:

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[16] Lassar Report (Stipulated Exhibit 6~~Staff Ex. 2.0, Att. I~~), October 28, 2002, p. 52 (NIC 049853)

[17] Lassar Report (Stipulated Exhibit 6), October 28, 2002, p. 52 (NIC 049853)

> [redacted]*, a gas supply employee, confirms that* [redacted] *occasionally would say to* [redacted] *at the morning meetings, "this is going to be a transfer, isn't it?" According to* [redacted] *and many of the Gas Supply representatives attending these morning meetings,* [redacted] *was stating that the fields required withdrawals of gas above and beyond those required to service the ratepayers. Based on their understanding of in-field transfers,* [redacted] *believed such movements of gas should be appropriately defined as in-field transfers.* [redacted] *did not understand* [redacted] *comments at these morning meetings as "pressure" on* [redacted]*, but appropriate give and take to determine which, if any, transfers should be accounted for as in-field transfers. It should be noted, however, that* [redacted] *was a* [redacted]*, at the morning meetings.*[18]

The Lassar Report further substantiates that [redacted] complained during 2001 of being pressured at that time:

> [redacted] *Upshaw acknowledges that* [redacted] *told him that* [redacted] *was getting pressure in the morning meetings to designate withdrawals of gas as in-field transfers.* [redacted] *says he told* [redacted] *that it was* [redacted] *decision.* [redacted] *said that he gave* [redacted] *the responsibility for deciding whether a gas movement was to be designated as an in-field transfer so that people in the gas supply group would not "game the system."*
>
> [redacted] *recorded withdrawals of gas as in-field transfers for each day beginning October 24th and running through December 17th, with the exception of only one day."*[19]

The Lassar Report further documents the reaction of [redacted]'s [redacted] to these designations:

> *Upshaw stated that he was not aware that in the fall of 2001* [redacted] *was designating in-field transfers every day, and he did not believe there could be legitimate in-field transfers that often.*[20]

While the Company recorded in-field transfers on many days during 2001, [redacted]

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[18] Lassar Report (Stipulated Exhibit 6), October 28, 2002, p. 53 (NIC 049854)

[19] Lassar Report (Stipulated Exhibit 6), October 28, 2002, p. 53 (NIC 049854)

[20] Lassar Report (Stipulated Exhibit 6), October 28, 2002, p. 54 (NIC 049855)

[redacted][21]

I do not believe it is necessary to determine whether in some objective sense [redacted] was in fact pressuring [redacted] to record in-field transfers during 2001, or whether [redacted]'s perception of the pressure was completely subjective. Either way, the Lassar Report demonstrates that discussions between [redacted] on the subject occurred at meetings in the fall of 2001, that [redacted] described [redacted] as feeling pressured to record in-field transfers, that [redacted] recorded such transfers on each day (except one) between October 24, 2001, and December 17, 2001, that [redacted]'s direct supervisor was not aware of these designations, and that he subsequently disagreed with the frequency of [redacted]'s designations of in-field transfers during this period.

When the recordation of in-field transfers, as experienced in 2001, no longer resulted in greater "savings," [redacted] recorded no further in-field transfers.

Quite apart from any issue of "pressuring," the Lassar Report demonstrates how in-field transfers were not recorded consistently before and after the initiation of the PBR, or for that matter, during the operation of the PBR itself:

> Prior to the PBR, there was no reason to keep track of in-field transfers. Transfers for operational reasons did not affect the financial results of the Company. . . .
>
> In the year 2000, the first year of the PBR, the Company did not keep track of infield transfers to properly determine the amount of withdrawals that were made for operational reasons as opposed to servicing the ratepayers. Nor was it in Nicor's interest to do so because, as discussed above, the SCR was inverted during 2000. In other words, Nicor's

[21] KPMG 027542

> performance under the Benchmark was not negatively affected by including operational transfers as storage withdrawals to service ratepayers.[22]
>
> During 2001, the SCR which was to apply to each in-field transfer was significant, and thus each unit of gas withdrawn from storage to service the ratepayers had the effect of significantly lowering the Benchmark and making it more difficult for Nicor to beat. It was therefore in Nicor's interest to ensure that only those withdrawals which were made to service the ratepayer were included in the SCA.[footnote omitted] One way to do this would be to keep track of in-field transfers, and thereby decrease the number of withdrawals which would affect the notional benchmark.[23]
>
> Nevertheless, we note that the Company did not use a consistent method for tracking and reporting in-field transfers.[24]

Despite the fact the in-field transfers were actually greater in 2000 than in 2001 and almost as significant in 2002 (see Table 3, above), it appears that the company vigorously looked for and recorded in-field transfers only in 2001 when, through the operation of the storage credit adjustment, there was a benefit to the Company to do so. This is either a remarkable coincidence or evidence that there was manipulation of the PBR benchmark.

~~In addition, the Lassar team's workpapers include an October 22, 2002 memorandum summarizing an interview with~~ [redacted] ~~that purportedly took place on~~ [redacted] ~~(with Mr. Lassar and other members of his team in attendance). According to this memorandum,~~

> [redacted]~~[25]~~

[22] Lassar Report (Stipulated Exhibit 6), October 28, 2002, p. 50 (NIC 049850)

[23] Lassar Report (Stipulated Exhibit 6), October 28, 2002, p. 51-52 (NIC 049852-53)

[24] Lassar Report (Stipulated Exhibit 6), October 28, 2002, p. 55 (NIC 049856)

~~[25] KPMG 027540~~

[redacted] ~~[26]~~

[redacted] ~~[27]~~

[redacted] ~~[28]~~

Q. Does your recommendation to recompute the 2000-2002 benchmark, by including rather than excluding in-field transfers, hinge on the possibility that the Company was identifying and quantifying in-field transfers for purposes of manipulating the PBR benchmark?

A. No. It does not matter why the Company excluded in-field transfers. The exclusion should be reversed in order to correct the PBR benchmark.

Q. Why should the Commission include in-field transfers in the computation of the storage credit adjustment, rather than exclude them as the Company has done?

A. If the Company wished to exclude in-field transfers, it should have made that proposal in Docket 99-0127. However, if the Company had made that proposal, it would have had ramifications for another component of the benchmark, namely the "Commodity Adjustment." Recall from my earlier testimony that the Commodity

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[26] ~~KPMG 027541~~

[27] ~~KPMG 027543. The actual impact of the Company's originally reported 2001 in-field transfers was more like a $33 million change in PBR "savings" ($2.75/MMBTU times 12 million MMBTU), half of which would be retained by Nicor.~~

[28] ~~KPMG 027542~~

Adjustment ("CA") is basically a catch-all or residual adjustment. In Docket 99-0127, it was set to a level that, on average, over several historical years, would have equated the total benchmark gas costs with the Company's actual historical gas costs. That is, the average savings would have been zero. To compute the CA, actual gas costs were compared to the benchmark's other components (including the storage credit adjustment) for several historical years (t = 1994 to 1998). In essence:

$$\mathbf{CA_t = (Actual\ Costs_t - MPI_t - FDA_t + SCA_t) \div Use_t,}$$

where MPI is the market price index,
FDA is the firm deliverability adjustment, and
SCA is the storage credit adjustment.

An average of the CA_t resulted in the fixed commodity adjustment rate of 1.68 cents per MMBTU, which has been applied to the Company's actual deliveries to customers during the tenure of the PBR program (2000-2002). Had the Company excluded in-field transfers from the historical data used to compute this residual CA, the storage credit (which was positive in each of the historical years examined) would have been smaller in each year. Hence, the CA_t would have been smaller in each year, as would the final average CA selected by the Commission. Such a tightening of the benchmark would have justified the exclusion of in-field transfers while the GCPP program was in effect.

In contrast, the Company's approach would allow it to "have its cake" (the higher CA computed in 99-0127 with in-field transfers included) "and eat it too" (subsequently removing in-field transfers and raising the benchmark even more while the program was in effect from 2000-2002).

Q. What is the effect of adding back in the in-field transfers that the Company

removed?

A. In the two years in which the storage credit adjustment rate was inverted, adding back in-field transfers reduces the storage credit adjustment and thus increases the benchmark and savings by $506,943 (2000) and $3,460,131 (2002). However, in 2001, adding back in-field transfers increases the storage credit adjustment and decreases the benchmark and savings by $33,166,877 (2001). On net, these corrections lead to a total refund of $14,599,901 (half the total reduction in the savings).

Q. How does your position with respect to in-field transfers differ from the Company's re-opening position on this issue?

A. My position is that any in-field transfers that were originally removed by the Company should be added back to the computation of withdrawals. This eliminates the Company's original negative $29,199,803 in storage credit adjustments due to in-field transfers, returning half of that, or $14,599,901, to ratepayers. In contrast, the Company's re-opening proposal uses revised levels of in-field transfers, changing the storage credit adjustments from negative $29,199,803 to negative $22,299,803 (a change of $6,900,000), returning half of that, or $3,450,000, to ratepayers.

2. <u>NGPL DSS Storage Withdrawals by IMD for Nicor Gas</u>

Q. Why should the NGPL DSS Storage Withdrawals by IMD be included in the storage credit adjustment component of the benchmark?

A. First, the storage service in question was included in the Company's PGA mix during the historical period over which the Commodity Adjustment was computed in Docket 99-0127. Analogous with in-field transfers (discussed in the previous subsection), including these storage withdrawals in the Docket 99-0127 computations raised the Commodity Adjustment higher than it would otherwise have been. Then, after 99-0127 was over, perhaps to boost the benchmark, again, the Company removed further NGPL withdrawals from the on-going storage credit adjustment.

Second, even though the released storage was no longer under the direct control of Nicor Gas, there were still expected benefits associated with the use of the service that existed prior to and during the tenure of the PBR program.[29] For purposes of evaluating the Company's performance, there was no reason to believe that the Nicor Gas supply portfolio should not continue to reap those expected benefits, even after it released the NGPL storage capacity to a third party. Indeed, since IMD was expected by Nicor to do a better job managing storage, there should have been an expectation of even larger benefits. Hence, the benchmark should have continued to reflect withdrawals from the released NGPL storage capacity.

Q. Why should we expect Nicor Gas to continue to reap the benefits of storage capacity that is released to a third party?

A. There is no reason for us to expect that Nicor Gas would simply give away its control of NGPL storage capacity for no consideration. Rather, it should demand something in return, like its value, either on an expected or after-the-fact basis. Of course, the value of storage does not remain constant from year to year, but fluctuates. That is why the storage credit adjustment was specifically designed to float with yearly changes in the differential between withdrawal and injection season market prices. Some

[29] As Company attorney, Steve Mattson, explained during oral arguments in Docket 99-0127, "It stands to reason that you better your prices as a result of having storage because of seasonal price differentials, and the company felt that it was only right to give the customers the benefit of that differential." (Transcripts from November 2, 1999 special open meeting of Commission to consider oral arguments in Docket 99-0127, p. 71, lines 10-15)

years the value can even be negative, as we saw in 2000 and 2002, but at the end of 1999, it was reasonable to expect that the value would be positive.[30]

Q. Have you ascertained the amount of third-party withdrawals from released NGPL DSS capacity?

A. Unfortunately, the Company claims that it was not able to provide to Staff the actual level of monthly withdrawals and injections from DSS capacity that was released to third parties like IMD. Instead, the Company has only been able to provide net withdrawals (i.e., monthly withdrawals minus monthly injections). Thus, instead of counting withdrawals, I only counted net withdrawals, when those net withdrawals were positive. This procedure provides a floor on the level of possible third party withdrawals from DSS.

For example, in November 2001, there were net withdrawals of 1,875,000 MMBTU, which I counted as withdrawals. Hypothetically, though, withdrawals could have been 2,000,000 and injections could have been 125,000. That is, hypothetically, withdrawals could have been more than 1,875,000 if there were any injections during the month, but they could not have been less than 1,875,000 MMBTU. Similarly, in April 2001, net withdrawals were negative 180,000 MMBTU, so I assumed zero withdrawals, even though, hypothetically, there could have been 350,000 MMBTU of withdrawals and 170,000 MMBTU of injections that resulted in net withdrawals of 180,000 MMBTU.

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[30] At the end of December 1999, the SCA rate implied by futures prices was $0.043 per MMBTU. Also, in Docket 99-0127, when the benchmark was created, the after-the-fact value of the Company's entire storage portfolio within the five-year period, 1994 to 1998, was computed to have ranged between $9 million and $116 million (all positive). The Company did not want to take the risk of such large fluctuations. So instead of asking for a fixed adjustment around $40 to $50 million, it sought and received from the Commission permission to adopt the fluctuating storage credit adjustment.

Q. What is the effect of adding back in to the benchmark these estimated NGPL storage withdrawals associated with capacity that the Company released to third parties?

A. As shown in the table, below, over the three years (2000-2002), adding back these minimum additional withdrawals decreases the PBR benchmarks by a total of $18,915,648, one-half of which, or $9,457,824, should be refunded to ratepayers.

Table 6. Impact of Accounting for DSS Storage Withdrawals by IMD for Nicor Gas

	Released DSS Min WD	Storage Credit Rate	Effect on Benchmark and Savings
2000	3,050,000	-0.6863	$2,093,215
2001	8,965,254	2.7503	-$24,657,138
2002	11,187,597	-0.3261	$3,648,275
Total			-$18,915,648
Half			-$9,457,824

C. <u>Affiliate Transactions</u>

Q. Can you describe the transaction in which Nicor Gas provided a discount on gas sold to its affiliate, Nicor Enerchange, in January 2000?

Q. On January 28, 2000, Nicor Gas sold 2.4 million MMBTU of gas to its affiliate, NICOR Enerchange. The price was set at $2.45 per MMBTU. The Gas Daily rate on that day was $2.73. Hence, in relation to the Gas Daily rate, the $2.45 sale price amounted to about a 10% discount of 28 cents per MMBtu (almost $700 thousand). However, the transaction was for future delivery in September and October. The Henry Hub futures price for September and October were $2.535 and $2.55, respectively. The basis differential between Chicago and the Henry Hub around this time was about 4 to 5 cents per MMBTU. Hence, judging by the prevailing futures price plus basis, the $2.45

sale price amounted to a discount of about 12 to 15 cents per MMBtu (over $300 thousand). However, since prompt payment was made to Nicor, well before operational delivery was required to take place, the actual discount was effectively about one-third this amount (assuming a 5.5% interest rate, which was the PGA interest rate for 2000). Thus, a more reasonable assessment of the actual discount was that it was only about 1% to 2% of the value of the gas at the time of the transaction.

Q. What else occurred on this day?

A. The Company entered into two other transactions on this day. The Lassar Report describes the genesis of these transactions as follows: “Once the details of the transaction [between Nicor and Enerchange] had been worked out, Lenart gave express “approval” to engage in a portion of this transaction with Enerchange. Concerned by the impression of impropriety, and pursuant to Enerchange’s related-party practice, Lenart expressly cautioned that Enerchange could only be involved in the deal if Nicor engaged in the identical transaction with independent third parties.”[31] The Company in fact entered into two other transactions with unaffiliated parties for a total of 900,000 MMBTU at the same price and roughly the same future delivery terms. ~~Apparently concerned with the “impression of impropriety” that the Nicor Enerchange deal might create, the Company entered into two other transactions with unaffiliated parties for a total of 900,000 MMBTU at the same price and roughly the same future delivery terms.~~

Q. Was there any need for the Company to enter into these transactions?

[31] Lassar Report (Stipulated Exhibit 6), October 28, 2002, p. 69 (NIC 049870)

A. The Lassar Report's discussion of this issue leaves the impression that the Company had "a pressing need to eliminate the overflow of gas it experienced in January 2000."[32] However, this would largely be a false impression. There was certainly not a pressing need to physically remove gas from storage. After all, the transaction was for future delivery in September and October and therefore involved no immediate movement of gas. ~~Quite the contrary, for operational reasons (as part of its plan to meet winter demand), the Company wished to physically maintain possession of the gas through the remainder of the winter.[25] Hence, the deal was for delivery several months into the future.~~ The only ~~Company's~~ "pressing need to eliminate the overflow of gas it experienced in January 2000" ~~was merely a perceived need~~ would have been to increase accounting "withdrawals" because Nicor was behind schedule vis-à-vis its plan for beating the storage credit adjustment component of the PBR benchmark.[33] Despite the Company's claims to the Commission in Docket 99-0127 -- that storage withdrawals were a function of weather and that the Company would not and could not manipulate storage withdrawals[34]-- here in the very first month of the program the Company was already busy manipulating withdrawals from an accounting standpoint.

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[32] Lassar Report (Stipulated Exhibit 6), October 28, 2002, p. 70 (NIC 049871)

[33] For instance, [redacted]

[34] See, for instance, Docket 99-0127, Initial Post Hearing Brief of Northern Illinois Gas Company, pp. 21-22; and Docket 99-0127, Gilmore Rebuttal, p. 6.

Q. How do you estimate the harm to ratepayers from these transactions?

A. While the discount at the time of the transactions was relatively small, there was still no legitimate reason for the Company to enter into these transactions. Furthermore, unless Nicor Gas took steps to lock in a buy price for those future delivery months, its commitment for future delivery placed ratepayers at risk for upward fluctuations in gas prices. Such an upward fluctuation indeed occurred, so that when the Company was required to make delivery, the opportunity cost was linked to the spot market prices prevailing in July, September and October. That is, the July, September and October prices are what it would have cost the Company to replace the gas sold to Nicor Enerchange or otherwise what Nicor would have foregone in additional spot market sales. Without the unnecessary transactions, designed to somewhat enrich an affiliate and designed around the manipulation of storage withdrawals, the Company would never have incurred such an increase in gas costs.

Therefore, I recommend that the Commission deny recovery of the excess of the replacement cost of the gas at the time of delivery over the revenues received. As shown in the table, below, this leads to a decrease in recoverable gas costs of $8,517,172, of which the Company retains half due to the PBR sharing mechanism. The net effect of making this adjustment to 2000 PGA costs would be a refund to customers of $4,258,586.

Table 7. Effect on Ratepayers of Affiliate Discount Deal

Month	Volumes sold to Enerchange	Additional Decoy Volumes sold to other parties at same price	Sale Price on Jan 28	Monthly Spot Index Prices	Total Value
Jan-00	2,400,000	900,000	2.45		$8,085,000
Jul-00		(300,000)		4.3087	-$1,292,595
Aug-00					
Sep-00	(900,000)	(600,000)		4.8578	-$7,286,683
Oct-00	(1,500,000)			5.3486	-$8,022,894
Total					-$8,517,172

D. NICOR's Discount On a Gas Sale to Aquila In Exchange For a Discount On a Non-PGA Purchase Of Weather Insurance

Q. Can you describe the transaction in which Nicor Gas received a discount on a non-PGA purchase of weather insurance in exchange for providing a vendor (Aquila) with a discount on a sale of gas?

A. Staff first became aware of this transaction when it read Chapter V of the Lassar Report (~~Staff Ex. 2, Att. I~~Stipulated Exhibit 6, pp. 40-48, or NIC 049841-049849). In that report, it was alleged that Nicor Gas provided a discount to Aquila of $2 million on a sale of gas in exchange for a $2 million discount on the premiums for weather insurance for calendar year 2001. More or less confirming the Lassar Report, I determined through review of Company records that 3 million MMBTU were sold to Aquila in the fall of 2000 for future delivery in March and April 2001. Furthermore, the price of the gas sold seemed to be based on the then-current futures prices for those two future months plus basis differentials, less a discount to Aquila of about $2.2 million.

Moreover, according to the Lassar report, by the time that Nicor had to make delivery, the market price of gas had risen, and the apparent loss had "ballooned to over

$6 million."[35] Again, based on review of Company records, I confirmed that the discounted sale of gas led to an actual loss to Nicor of over $6.1 million.

The discounted cost of the weather insurance and any benefits from the insurance were not to be included in the PGA, but were to inure entirely to the benefit of the Company. Because the 2001 temperatures were relatively mild, Nicor Gas received a benefit of [redacted] on the weather insurance.[36] This financial gain was not included as an offset to PGA costs (and I am not suggesting that it should have been).

Q. How do you estimate the harm to ratepayers of this transaction?

A. Because of this transaction, I estimate that gas costs increased by approximately $6,115,050 less the half absorbed by Nicor Gas due to the PBR sharing mechanism. Hence, ratepayers should receive a net refund of $3,057,525. As shown in the table below, this figure is based on the difference in the monthly index prices prevailing at the time of delivery and the contract price for the sale to Aquila.

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[35] [redacted] See, for example, KPMG 024439-024442 and 024444-024448.

[36] The Company's out-of-pocket cost of the weather insurance was a net premium of [redacted]. Thus, based on the mild temperatures that existed, the Company netted a [redacted]. However, the true cost of the insurance also included an additional $2 million (the premium discount traded for the gas sale discount). Hence, the true insurance premium was more like [redacted]

Table 8. Effect on Ratepayers of the Weather Insurance for Gas Discount Deal

	Mar-01	Apr-01	TOTAL	One-Half the TOTAL
Aquila Contract Volumes (MMBTU)	1,500,000	1,500,000	3,000,000	
Aquila Contract Price	$3.5075	$3.2050		
Total Revenues	$5,261,250	$4,807,500	$10,068,750	
Monthly Price Index	$5.2906	$5.4986		
Monthly Price Index minus Aquila Contract Price	$1.7831	$2.2936		
Monthly Price Index minus Aquila Contract Price times Aquila Contract Volumes	$2,674,650	$3,440,400	$6,115,050	$3,057,525

Q. Has the Company made any accounting adjustments related to the Aquila transaction?

A. Yes. The Company appears to have made an adjustment equal to what the Lassar Report concluded was the original $2 million “discount” to Aquila, notwithstanding the fact that the loss eventually ballooned to over $6.1 million. After taking into account the 50% sharing mechanism, Nicor’s adjustment leads to a net refund to customers of $1,000,000, whereas my adjustment leads to a net refund of $3,057,525.

E. Improper Inclusion in the PGA of Carrying Charges Associated with Managed Storage Deals Using Released NGPL Storage

Q. How did the Company include carrying charges associated with managed storage deals in the PGA?

A. Instead of buying gas during the injection season, leaving it in storage (incurring carrying costs) and withdrawing it during the withdrawal season, the Company released NGPL storage capacity to third parties and allowed them to perform all of the above steps. When the Company bought the gas during the withdrawal season, it paid explicit or implicit carrying charges embedded in the price. As shown in an internal company meeting handout, the Company expected to avoid incurring annual carrying costs of about [redacted][37]

Q. What do you propose to do about these carrying charges?

A. As noted above, it is common Commission practice to include a return on the cost of gas in storage inventory in base rates. To avoid double-recovery, the Commission's PGA rules prohibit the inclusion and recovery of carrying charges on gas in storage. However, with the released storage capacity, the Company either explicitly or implicitly paid carrying charges to vendors for gas delivered to the Company. These explicit and implicit carrying charges were included in the ultimate price paid by the Company, included in the PGA, and recovered from ratepayers. Thus, I recommend adjustments to remove the explicit carrying charges from the PGA for the years 1999 through 2002. I decided not to pursue refunds for any implicit carrying charges that may have been incurred.

Q. Have you attempted to ascertain the explicit carrying charges associated with managed storage deals using released NGPL storage capacity that were included in the PGA during the years in question?

A. Yes. According to the Lassar Report, included in the Company's payments to IMD under the various managed DSS storage deals was a cost of carry (i.e., interest

[37] [redacted] (NIC 002408).

component) in the following amounts: $1 million in 2000 and $3.1 million in 2001. As stated in the Lassar Report, "These costs were included with the cost of gas and included in the PGA. Had Nicor obtained the financing on this inventory directly, the related interest cost would not have been recoverable under the PGA. We do not believe it was appropriate to have included these costs in the PGA." (Lassar Report, Stipulated Exhibit 6, p. 36). Company records provided to Staff reflect these amounts.[38]

Q. What level of carrying charges do you recommend be excluded from the PGA during the period 1999 through 2002?

A. I recommend excluding the $1 million in 2000 and $3.1 million in 2001 (about $4.1 million in total), for which there is explicit documentation, as discussed above. The net effect of this, given the 50% PBR sharing formula, is a total refund of approximately $2 million. Given that the Company's own internal documents cite "a fixed guaranteed up front amount of carrying cost savings" totaling $2.6 million per year, I suspect that I have not captured all the carrying cost that got shifted into the PGA. If there were other similar carrying charges from NSS and/or DSS deals in 1999 through 2002 that were included in the PGA, the Company should bring those to the Commission's attention when it presents its rebuttal testimony.

F. Error in the Reporting of Deliveries of PGA Gas to Customers

Q. Please explain the error in the reporting of deliveries of PGA gas to customers.

38 [redacted]

A. Apparently, in 2001, there was a metering error that led to a misreporting of gas delivered to customers. Efforts appear to have been made to correct this error. However, those efforts were not complete, resulting in an excess volume of gas being included in the market index and commodity adjustment component of the benchmark. I compute the effect of the error to be a $2,317,531 overstatement of the benchmark, of which half, $1,158,765, was absorbed by ratepayers due to the PBR program's 50-50 sharing mechanism.

After this error in the benchmark was raised by the whistle-blower fax, the Company alleged in a Staff data request that it was planning to make an adjustment to correct the admitted error. Ultimately, this appears to have been done. I accept the Company's meter error adjustment and adopt it within my own PBR savings computation for 2001.

G. <u>Exclusion of Hub Revenues from the PGA</u>

Q. What is the Chicago Hub?

A. The Chicago Hub is a name used to identify various services offered by Nicor that are not governed by ICC tariffs, but that rely on the Company's access to various natural gas storage and transportation assets in northern Illinois. An example of a Chicago Hub service is a gas loan (or reverse parking), whereby Nicor loans a quantity of gas to a gas marketer, who brings the same quantity of gas back to Nicor at a later date and also pays Nicor a monetary fee.

Q. Were the revenues from such Chicago Hub services included in Nicor's PGA?

A. In review of Company records, revenues from some of the Hub storage services were flowed through the PGA, while revenues from other Hub services were not flowed through the PGA. At first blush, this ***appears*** to be in consistent with the Commission order in ICC Docket 95-0219 (the Company's last rate case before the GCPP was instituted).[39] However, more careful examination of the latter group of transactions reveals that many of them are not the type of hub services that the Commission authorized the Company to exclude from the PGA. In contrast, they are subject to Section 525.40(d) of the Commission's PGA rule, which requires, in part, that "[r]ecoverable gas costs shall be offset by the revenues derived from transactions at rates that are not subject to the Gas Charge(s) if any of the associated costs are recoverable gas costs as prescribed by subsection (a) of this Section."[40] Hence, revenues from those transactions should have been included in the PGA as an offset to gas costs.

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[39] With respect to "off-system storage revenues," the Commission directed the Company "to remove the entire $1,164,000 forecast of revenues from the rate case and … to reflect its actual off-system storage revenues in its PGA calculation, net of related costs not otherwise [*40] recovered and properly shown in the reconciliation proceedings, in accordance with 83 Ill. Adm. Code 525.40(d), beginning with its first PGA calculation filed subsequent to its compliance rate filing in this case." (Docket 95-0219, Order, April 3, 1996, 1996 Ill. PUC LEXIS 204, 39-40). In review of the Company's response to Staff data request ICC 7.05 (10/18/2002), for contracts covering the period between June 1, 1998 and March 31, 2003, there appears to have been about $1.5-2.1 million per year of hub revenue that flowed through the PGA as an offset to gas costs. However, the Commission concluded that "On March 13, 1996, in Docket 93-0320, [*35] the Commission issued an Order denying the Company's proposed [50-50] sharing of Hub revenues and requiring the treatment of all Hub revenues above-the-line for ratemaking purposes. The Commission determines that, by treating Hub revenues totally above-the-line an additional adjustment of $ 471,500 is adopted for a total adjustment to revenues of $ 627,500." (Docket 95-0219, Order, April 3, 1996, 1996 Ill. PUC LEXIS 204, 35). This implies the total revenues included above-the-line in this rate case were 2x$471,500 or $943,000. In review of the Company's response to Staff data request ICC 7.05 (10/18/2002) in the instant docket, for contracts covering the period between June 1, 1998 and March 31, 2003, there appears to have been at least $3.2-3.8 million per year of hub revenue that did not flow through the PGA.

[40] In the Commission's Order adopting this rule, it referred to the types of transactions covered by §525.40(d) as "off-system transactions" and noted that they may include capacity releases, sales for resale, buy/sell transactions and exchanges. The Commission concluded:

> With respect to off-system transactions, the Commission finds the Staff's proposal appropriate. The utilities' proposals for revenue sharing, i.e., partial rather than full offset to recoverable gas costs, are inappropriate in the application of the Purchased Gas Adjustment as a means of encouraging utilities to maximize the number of prudent off-system transactions in which they engage. In fact, Illinois utilities have [*17] been engaging in such transactions, such as capacity release, without revenue sharing. The Commission is concerned that revenue sharing would create incentives for utilities to subsidize off-system transactions with on-system transactions and could therefore result in PGA gas charge increases. The Commission concludes that utilities already have incentives to engage in prudent off-system transactions which result in PGA decreases. Any additional incentives that a utility wishes to suggest should be handled in a Section 9-244 proceeding and should not be part of a general rule. (ICC Docket 94-0403, Order, August 23, 1995, 1995 Ill. PUC LEXIS 579, 16-17)

Q. How did you determine that many of the transactions that Nicor excluded from the PGA are not the type of hub services that the Commission previously authorized the Company to exclude from the PGA?

A. In the Docket 95-0219 order cited above, the Commission references and adopts the primary conclusion from its earlier order in Docket 93-0320, which denied the Company's proposed 50-50 above and below-the-line accounting treatment for hub revenues and required all those revenues to be recorded above-the-line as an offset to recoverable base-rate gas costs (see footnote **Error! Bookmark not defined.** 39). Thus, he Commission implied that these hub services should not be included as an offset to gas costs in the PGA. However, at that time, the Commission had a completely different picture of "hub services" than what the Company actually provided during the 1999 through 2002 period currently under review. In Docket 93-0320, Nicor described the Hub's services as follows:

> *The Hub facilitates the movement of gas between and among interstate pipelines attached to the Company's system. The Hub also permits storage of gas for short periods of time before redelivery to an interstate pipeline. The Hub also will accommodate gas title transfers. The Company provides these services pursuant to authorization by the Federal Energy Regulatory Commission ("FERC") and subject to operational constraints such that the Company's utility customers are not and will not be adversely impacted. (1996 Ill. PUC LEXIS 151, 2 (Ill. PUC , 1996))*

After reviewing Company records on hub transactions, it appears as if many of those transactions do not fit within the above description. In particular, none of the multi-cycle gas loans appear to fit within the type of transactions that were described to the Commission in Docket 93-0320. Each of the multi-cycle gas loans appear to have a term of either eleven or twelve months, from the injection season through the withdrawal season of the following calendar year, and they are all paired with a long-term storage agreement, as well. These transactions appear to be completely different than the ones considered by the Commission in Docket 93-0320, and clearly fit within the meaning of Section 525.40(d). Hence, I recommend that the Commission order all revenues from these transactions to be included in the PGA as an offset to PGA costs. Prorating the revenues collected by the Company by month, this constitutes a cost reduction adjustment of approximately $10.3 million between the beginning of 1999 and the end of 2002, with about $1.9 million of that total applicable to 1999, and the remaining $8.4 million of that total applicable to the PBR period 2000-2002. After taking into account the effect of the PBR's 50-50 sharing mechanism, the refund due to ratepayers would be $6.1 million (i.e., 0.5 x $8.4 million + $1.9 million).

H. <u>Accounting Adjustments</u>

Q. Can you summarize the Company's accounting restatement that was presented in its testimony on reopening?

A. The restatement had effects on both the storage credit adjustment component of the benchmark and on costs. The changes with respect to the storage credit adjustment component of the benchmark lead to a refund of about $8 million and have already been discussed in Section B. The accounting restatement's more direct impact on gas costs leads to a surcharge of approximately $15 million, due primarily to less of the low-cost LIFO layer gas being withdrawn from storage. Based on Staff Accounting's review, Staff is not disputing the restatement. However, as reflected in Staff's testimony, the restatement does not fully account for all the issues related to the PBR and PGAs during this time frame.

I. Staff Witness Maple's Adjustments

Q. According to Staff witness Maple, there should be additional refunds of $10,584,907 due to adjustments to the benchmark in 2000 through 2002, as well as to gas costs in 1999. Have you accounted for these proposed adjustments?

A. Yes. Mr. Maple's adjustments are included within my summary tables and are included in my computation of Factor O interest.

J. Adjustment Related to the Two-percent of Storage Withdrawals Assumed by Nicor to be Lost

Q. According to Staff witness Knepler, there should be additional refunds associated with lost storage gas, the cost of which the Company has been including in the PGA. Have you assisted Mr. Knepler in computing the size of this adjustment?

A. Yes. Based on discussions with Mr. Knepler, it is my understanding that the Company was accounting for a portion of its lost gas by adding two percent to gross withdrawals from storage. After transportation customers paid for their share of lost storage gas, the Company recovered the remaining cost through the PGA. However, according to Mr. Knepler, the Commission's PGA rule does not permit utilities to recover the cost of lost storage gas through the PGA. Rather, the expense of lost storage gas is considered a base-rate item. In consultation with Mr. Knepler, I have computed the quantity of the lost storage gas recovered through the PGA in 1999 through 2002, by taking 2% of aquifer withdrawals and subtracting 2% of withdrawals by transportation customers. In net withdrawal years (1999, 2000, and 2002), I valued the lost gas at the average cost of the net withdrawals. In the net injection year (2001), I valued the lost gas at the original cost of the new 2001 LIFO layer, as computed by the Company. Removing from the PGA the computed cost of lost storage gas leads to an additional refund of $18,667,265.

Q. How does this adjustment to PGA costs affect PBR savings?

A. Since, according to Mr. Knepler, the Company should have been excluding the cost of lost storage gas from the PGA all along, the PBR benchmark should have excluded such costs all along, as well. Hence, for purposes of computing savings, I have left out the reduction in 2000 through 2002 costs arising from the adjustment, discussed above. However, if this cost disallowance were to be included in the savings calculation, then the refund to customers arising from this adjustment would be only $12,343,487.

K. <u>Net Interest on Factor O Refunds/Surcharges</u>

Q. Nicor witness Gorenz computes interest through March 31, 2007 of $1,565,855 owed by ratepayers to Nicor through the operation of the PGA's Factor O. Mr. Gorenz's computations are shown on the Nicor Gas Ex. 2.6. Do you agree with Mr. Gorenz's computations?

A. No. My computations of Factor O interest through the end of 2009 result in a payment to ratepayers of $20,717,680. This is what is included in my summary of adjustments. The difference between my proposed interest payment **to** ratepayers and the Company's proposed payment **by** ratepayers is mostly due to the differences in our adjustments prior to interest. Another part of the difference is that my calculations go through 2009 rather than through March 2007. Another part of the difference is due to the fact that the Company's calculations include no compounding of interest, whereas my computations include monthly compounding. Finally, in my computations, all PBR savings for a given year are assumed to be recoverable in the following year and interest on under or over-recovery of them begins the year after that; the Company follows this same procedure with 2000 and most of the 2001 savings, but not with 2002 and not with the new 2001 Oxy adjustment (discussed by Company witness Gorenz in Nicor Gas Ex. 2.0, p. 13). With those two exceptions, Nicor begins collecting interest a year earlier. If those exceptions were instead the rule, and were used consistently for all three years (i.e., if changes in PBR savings for a given year were to begin in the following year for all three years), then my computation of interest owed to ratepayers would increase to $23,161,582 and the Company's computation of interest owed to Nicor would decrease to $46,689.

Q. Does this conclude your testimony?

A. Yes.

Attachment 1: Summary by Issue

Issue		Staff Proposed Surcharges	Company Proposed Surcharges	Staff minus Company Proposed Surcharges
A	LIFO-derived Savings	-$21,871,934	$0	-$21,871,934
B	Storage Credit Adjustment:	-$38,520,976	-$17,913,251	-$20,607,725
b1	Accounting Corrections effect on SCA	-$8,040,338	-$8,040,338	$0
b2	2000 Virtual Inventory	-$4,609,701	-$4,609,701	$0
b3	Managed DSS Withdrawals	-$9,457,824	$0	-$9,457,824
b4	Rev. Original Infield Transfers	-$14,599,901	-$3,450,000	-$11,149,901
b5	Add'l 2001 Oxy Deal	-$1,813,212	-$1,813,212	$0
C	Rev. Addional Costs From 2000 Affiliate Discount	-$4,258,586	$0	-$4,258,586
D	Rev. Add'l Costs from 2001 Weather Ins. Deal	-$3,057,525	-$1,000,000	-$2,057,525
E	Rev. Add'l Carrying Costs in Managed DSS Deals	-$2,049,913	$0	-$2,049,913
F	Impact of 2001 Metering Error	-$1,160,484	-$1,160,484	$0
G	Certain Hub Revenues	-$6,150,917	$0	-$6,150,917
H	Accounting Corrections effect on costs	$15,059,454	$15,059,454	$0
H+b1	Accounting Corrections combined effect	$7,019,116	$7,019,116	$0
I	Maple Issues:	-$10,584,907	$0	-$10,584,907
i1	Maple Issue 1	-$1,475,267	$0	-$1,475,267
i2	Maple Issue 2	-$5,893,472	$0	-$5,893,472
i3	Maple Issue 3	-$3,216,169	$0	-$3,216,169
J	Knepler 2% of Withdrawals Issue	-$18,667,265	$0	-$18,667,265
A thru J	**Sub-Total**	**-$91,263,052**	**-$5,014,281**	**-$86,248,772**
+	Undercharge from Co.'s Original 2001 Savings	$1,329,699	$1,329,699	$0
+	PGA Adj to reflect 2002 Final Gas Costs	-$18,793,860	-$18,793,860	$0
+	One-half of Co's Computation of 2002 Savings	$26,875,870	$26,875,870	$0
=	**Total Before Interest**	**-$81,851,343**	**$4,397,428**	**-$86,248,772**
K	Interest through 12/31/2009	-$20,717,680	$1,929,396	-$22,647,076
=	**Total**	**-$102,569,024**	**$6,326,824**	**-$108,895,848**
K	Interest through 3/31/2007, as filed by Nicor	-$12,607,950	$1,565,855	-$14,173,805
	Total with interest through 3/31/2007, as filed by Nicor	-$94,459,294	$5,963,283	-$100,422,577

Shaded rows are sub-totals, and
should not be added, or adjustments will be counted more than once

Attachment 2: Summary by Year

	Staff Proposed Changes in Recoverable Gas Costs Excluding Share of PBR Savings	One-half of Staff Proposed Changes in PBR Savings from Previous Year (including 2001 Rider 4 Oxy Adj.)	One-half of Staff's Proposed Exclusion of LIFO-derived Savings	Undercharge from Co's Originally Booked 2001 Savings	PGA Adj to reflect 2002 Final Gas Costs	One-half of Co's Computation of 2002 Savings	Total Before Interest	Interest	Total Surcharge (Refund) Due as of 12/31/2009
1999	($24,919,309)						($24,919,309)		($24,919,309)
2000	$19,292,566						$19,292,566	($1,405,645)	$17,886,921
2001	$4,099,697	($5,996,309)	($12,178,201)				($14,074,812)	($433,742)	($14,508,554)
2002	($5,587,930)	($59,000,290)	$0	$1,329,699	($18,793,860)		($82,052,382)	($434,790)	($82,487,172)
2003		$2,720,457	($9,693,734)			$26,875,870	$19,902,593	($1,571,194)	$18,331,399
2004								($1,294,325)	($1,294,325)
2005								($2,199,869)	($2,199,869)
2006								($4,097,415)	($4,097,415)
2007								($4,772,808)	($4,772,808)
2008								($3,487,736)	($3,487,736)
2009								($1,020,156)	($1,020,156)
Total	($7,114,976)	($62,276,142)	($21,871,934)	$1,329,699	($18,793,860)	$26,875,870	($81,851,343)	($20,717,680)	($102,569,024)

Attachment 3: Interest Calculations

Monthly compounding

		Staff	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	3/31/2007	12/31/2007	12/31/2008	12/31/2009
		Principal	5.50%	6.00%	2.00%	1.50%	1.50%	2.50%	4.50%	5.00%	5.00%	3.50%	1.00%
1999	Factor O	($24,919,309)	($1,405,645)	($1,623,666)	($564,125)	($430,644)	($437,148)	($742,988)	($1,383,869)	($395,486)	($1,216,492)	($1,177,955)	($344,550)
2000	Factor O	$19,292,566		$1,189,923	$413,426	$315,603	$320,369	$544,508	$1,014,186	$289,837	$891,521	$863,279	$252,507
2001	Factor O	($14,074,812)			($284,091)	($216,870)	($220,146)	($374,166)	($696,911)	($199,165)	($612,621)	($593,213)	($173,514)
2002	Factor O	($82,052,382)				($1,239,283)	($1,258,000)	($2,138,131)	($3,982,422)	($1,138,107)	($3,500,754)	($3,389,853)	($991,526)
2003	Rider 4	$19,902,593					$300,600	$510,908	$951,602	$271,951	$836,507	$810,008	$236,926
TOTAL		($81,851,343)	($1,405,645)	($433,742)	($434,790)	($1,571,194)	($1,294,325)	($2,199,869)	($4,097,415)	($1,170,970)	($3,601,838)	($3,487,736)	($1,020,156)
Cumulative Total										($12,607,950)	($16,209,789)	($19,697,524)	($20,717,680)

1123 **Attachment 4: 1999 Details of PGA Cost Revisions**

Staff Proposed Revisions to PGA Costs
1999

Issue	Issue ID	
Maple Issue #3	I3	($3,216,169)
Certain Hub Revenues	G	($1,931,667)
Company Accounting Corrections	H	($13,751,764)
Knepler 2% of Withdrawals Issue	J	($6,019,710)
TOTAL Surcharge (Refund)		($24,919,309)

1124

Attachment 5: 2000 Details of PGA Cost and PBR Savings Revisions

Staff's Proposed Revisions to Costs and PBR Results																		
Nicor Gas Company Gas Cost Performance Program																		
2000																		
			Issue:	b1 and H	b2	b3	b4	b5	C	D	E	F	G	I1	I2	J		
	MMBTUs Delivered	Market Index Price	Total	Company Accounting Corrections	2000 Virtual Inventory	Managed DSS Withdrawals	Rev. Original Infield Transfers	Add'l 2001 Oxy Deal	Rev. Addional Costs From 2000 Affiliate Discount	Rev. Add'l Costs from 2001 Weather Ins. Deal	Rev. Add'l Carrying Costs in Managed DSS Deals	Impact of 2001 Metering Error	Certain Hub Revenues	Maple Issue #1	Maple Issue #2	Knepler 2% of Withdrawals Issue	Total Adjustments	Total After Adjustments
Benchmark Gas Cost (BGC																		
Market Index Cost:																		
January	49,464,542	2.4376	$120,574,768															
February	35,210,079	2.6742	$94,158,793															
March	25,337,889	2.7139	$68,764,497															
April	19,016,722	2.9762	$56,597,568															
May	8,374,260	3.2948	$27,591,512															
June	7,229,604	4.4499	$32,171,015															
July	5,245,614	4.3087	$22,601,777															
August	6,327,079	4.0952	$25,910,654															
September	6,558,276	4.8578	$31,858,793															
October	12,343,486	5.3486	$66,020,369															
November	31,804,601	4.9498	$157,426,414															
December	56,648,644	7.3849	$418,344,571															
	263,560,796	4.2572	$1,122,020,731														$0	$1,122,020,731
Minus: Storage Credit Adjustment:				b1														
Actual storage withdrawals (MMBtu's)			109,705,652	35,043,890	(13,433,487)	3,050,000	738,661										25,399,064	135,104,716
x Storage Credit Rate			(0.6863)	(0.6863)	(0.6863)	(0.6863)	(0.6863)											
= Dollar Amount of Adjustment			-$75,290,989	-$24,050,622	$9,219,402	-$2,093,215	-$506,943										-$17,431,378	-$92,722,367
Plus: Firm Deliverability Adjustment			$116,582,612											-$983,511	-$3,928,981		-$4,912,492	$111,670,120
Plus: Commodity Adjustment																		
Actual MMBtu's delivered			263,560,796														-	263,560,796
x commodity factor			0.0168															
			$4,427,821														$0	$4,427,821
Benchmark Gas Cost			$1,318,322,153	$24,050,622	-$9,219,402	$2,093,215	$506,943	$0	$0	$0	$0	$0	$0	-$983,511	-$3,928,981	$0	$12,518,886	$1,330,841,039
Actual Gas Costs (AGC)																		
				H														
Total PGA recoverable costs as filed			$1,308,503,255	$36,017,780	$0	$0	$0	$0	-$8,517,172	$0	-$994,105	$0	-$1,995,000	$0	$0	-$5,218,937	$19,292,566	$1,327,795,821
Exclude amortization of annual reconciliation balance			-$15,941,784														$0	-$15,941,784
Plus amortization of pre-GCPP pipeline refunds			$483,311														$0	$483,311
Less transition costs			$842,092														$0	$842,092
Less take-or-pay costs			$0														$0	$0
Actual Gas Costs			$1,293,886,874	$36,017,780	$0	$0	$0	$0	-$8,517,172	$0	-$994,105	$0	-$1,995,000	$0	$0	-$5,218,937	$19,292,566	$1,313,179,440
Sharing Results																		
Actual Gas Costs (AGC) minus Benchmark Gas Cost (BGC)			-$24,435,279	$11,967,158	$9,219,402	-$2,093,215	-$506,943	$0	-$8,517,172	$0	-$994,105	$0	-$1,995,000	$983,511	$3,928,981	$0	$11,992,617	-$12,442,662
Nicor Gas Share of Savings (Cost) at 50%			$12,217,640	-$5,983,579	-$4,609,701	$1,046,608	$253,472	$0	$4,258,586	$0	$497,053	$0	$997,500	-$491,756	-$1,964,491	$0	-$5,996,309	$6,221,331
Customer Share of Savings (Cost) at 50%			$12,217,640	-$5,983,579	-$4,609,701	$1,046,608	$253,472	$0	$4,258,586	$0	$497,053	$0	$997,500	-$491,756	-$1,964,491	$0	-$5,996,309	$6,221,331
Total Surcharge (Refund) = Change in Actual Gas Costs + Change in Savings/2				$30,034,201	-$4,609,701	$1,046,608	$253,472	$0	-$4,258,586	$0	-$497,053	$0	-$997,500	-$491,756	-$1,964,491	-$5,218,937	$13,296,257	
Additional Refund (-) to Flow 1/2 of Revised Storage Decrement Benefit to Customers																	-$12,178,201	A
Total Surcharge (Refund) after Additional Refund to Flow 1/2 of Revised Storage Decrement Benefit to Customers																	$1,118,056	

Attachment 6: 2001 Details of PGA Cost and PBR Savings Revisions

Staff's Proposed Revisions to Costs and PBR Results
Nicor Gas Company Gas Cost Performance Program
2001

			Issue:	b1 and H	b2	b3	b4	b5	C	D	E	F	G	I1	I2	J		
	MMBTUs Delivered	Market Index Price	Total	Company Accounting Corrections	2000 Virtual Inventory	Managed DSS Withdrawals	Rev. Original Infield Transfers	Add'l 2001 Oxy Deal	Rev. Addional Costs From 2000 Affiliate Discount	Rev. Add'l Costs from 2001 Weather Ins. Deal	Rev. Add'l Carrying Costs in Managed DSS Deals	Impact of 2001 Metering Error	Certain Hub Revenues	Maple Issue #1	Maple Issue #2	Knepler 2% of Withdrawals Issue	Total Adjustments	Total After Adjustments
Benchmark Gas Cost (BGC																		
Market Index Cost:																		
January	48,925,325	10.0864	$493,480,398															
February	41,494,062	6.3332	$262,790,193															
March	34,569,420	5.2906	$182,892,973															
April	14,347,426	5.4986	$78,890,757															
May	9,221,726	4.7718	$44,004,232															
June	6,129,341	3.8000	$23,291,496															
July	5,679,415	3.1439	$17,855,513															
August	5,062,806	3.1292	$15,842,533															
September	7,063,936	2.2871	$16,155,928															
October	15,934,396	2.0803	$33,148,324															
November	19,113,882	2.9264	$55,934,864															
December	37,765,307	2.4109	$91,048,379															
	245,307,042	5.3620	$1,315,335,590									-$2,320,967					-$2,320,967	$1,313,014,623
Minus: Storage Credit Adjustment:				b1														
Actual storage withdrawals (MMBtu's)			39,697,755	14,591,607		8,965,254	12,059,367	1,318,556									36,934,784	76,632,539
x Storage Credit Rate			2.7503	2.7503	2.7503	2.7503	2.7503	2.7503										
= Dollar Amount of Adjustment			$109,180,736	$40,131,297	$0	$24,657,138	$33,166,877	$3,626,425									$101,581,736	$210,762,472
Plus: Firm Deliverability Adjustment			$116,582,612											-$983,511	-$3,928,981		-$4,912,492	$111,670,120
Plus: Commodity Adjustment																		
Actual MMBtu's delivered			245,307,042														-	245,307,042
x commodity factor			0.0168															
			$4,121,158														$0	$4,121,158
Benchmark Gas Cost			$1,326,858,624	-$40,131,297	$0	-$24,657,138	-$33,166,877	-$3,626,425	$0	$0	$0	-$2,320,967	$0	-$983,511	-$3,928,981		-$108,815,195	$1,218,043,429
Actual Gas Costs (AGC)																		
				H														
Total PGA recoverable costs as filed			$1,344,255,713	$21,604,655						-$6,115,050	-$3,105,720		-$3,198,500			-$5,085,688	$4,099,697	$1,348,355,410
Exclude amortization of annual reconciliation balance			-$12,217,639														$0	-$12,217,639
Plus amortization of pre-GCPP pipeline refunds			-$36,952,144														$0	-$36,952,144
Less transition costs			$2,733,880														$0	$2,733,880
Less take-or-pay costs			-$664,044														$0	-$664,044
Actual Gas Costs			$1,297,155,766	$21,604,655	$0	$0	$0	$0	$0	-$6,115,050	-$3,105,720	$0	-$3,198,500	$0	$0	-$5,085,688	$4,099,697	$1,301,255,463
Sharing Results																		
Actual Gas Costs (AGC) minus Benchmark Gas Cost (BGC)			-$29,702,858	$61,735,952	$0	$24,657,138	$33,166,877	$3,626,425	$0	-$6,115,050	-$3,105,720	$2,320,967	-$3,198,500	$983,511	$3,928,981	$0	$118,000,580	$88,297,722
Nicor Gas Share of Savings (Cost) at 50%			$14,851,429	-$30,867,976	$0	-$12,328,569	-$16,583,439	-$1,813,212	$0	$3,057,525	$1,552,860	-$1,160,484	$1,599,250	-$491,756	-$1,964,491	$0	-$59,000,290	-$44,148,861
Customer Share of Savings (Cost) at 50%			$14,851,429	-$30,867,976	$0	-$12,328,569	-$16,583,439	-$1,813,212	$0	$3,057,525	$1,552,860	-$1,160,484	$1,599,250	-$491,756	-$1,964,491	$0	-$59,000,290	-$44,148,861
Total Surcharge (Refund) = Change in Actual Gas Costs + Change in Savings/2				-$9,263,321	$0	-$12,328,569	-$16,583,439	-$1,813,212	$0	-$3,057,525	-$1,552,860	-$1,160,484	-$1,599,250	-$491,756	-$1,964,491	-$5,085,688	-$54,900,593	
Additional Refund (-) to Flow 1/2 of Revised Storage Decrement Benefit to Customers																	$0	A
Total Surcharge (Refund) after Additional Refund to Flow 1/2 of Revised Storage Decrement Benefit to Customers																	-$54,900,593	

Attachment 7: 2002 Details of PGA Cost and PBR Savings Revisions

Staff's Proposed Revisions to Costs and PBR Results																		
Nicor Gas Company Gas Cost Performance Program																		
2002																		
			Issue:	b1 and H	b2	b3	b4	b5	C	D	E	F	G	I1	I2	J		
	MMBTUs Delivered	Market Index Price	Total	Company Accounting Corrections	2000 Virtual Inventory	Managed DSS Withdrawals	Rev. Original Infield Transfers	Add'l 2001 Oxy Deal	Rev. Addional Costs From 2000 Affiliate Discount	Rev. Add'l Costs from 2001 Weather Ins. Deal	Rev. Add'l Carrying Costs in Managed DSS Deals	Impact of 2001 Metering Error	Certain Hub Revenues	Maple Issue #1	Maple Issue #2	Knepler 2% of Withdrawals Issue	Total Adjustments	Total After Adjustments
Benchmark Gas Cost (BGC																		
Market Index Cost:																		
January	41,000,194	2.5345	$103,914,992															
February	36,160,845	2.1139	$76,440,410															
March	37,863,841	2.6458	$100,180,151															
April	20,037,862	3.4112	$68,353,155															
May	13,937,339	3.4548	$48,150,719															
June	5,054,886	3.3080	$16,721,563															
July	5,183,550	3.1537	$16,347,362															
August	5,583,387	2.9433	$16,433,583															
September	5,720,252	3.2897	$18,817,913															
October	17,707,488	3.8263	$67,754,161															
November	30,453,960	4.2151	$128,366,487															
December	42,759,252	4.3794	$187,259,868															
	261,462,856		$848,740,363														$0	$848,740,363
Minus: Storage Credit Adjustment:				b1														
Actual storage withdrawals (MMBtu's)			97,438,456			11,187,597	10,610,645										21,798,242	119,236,698
x Storage Credit Rate			(0.3261)	(0.3261)	(0.3261)	(0.3261)	(0.3261)											
= Dollar Amount of Adjustment			-$31,774,681	$0	$0	-$3,648,275	-$3,460,131										-$7,108,407	-$38,883,087
Plus: Firm Deliverability Adjustment			$116,582,612											-$983,511	-$3,928,981		-$4,912,492	$111,670,120
Plus: Commodity Adjustment																		
Actual MMBtu's delivered			261,462,856														-	261,462,856
x commodity factor			0.0168															
			$4,392,576														$0	$4,392,576
Benchmark Gas Cost			$1,001,490,231	$0	$0	$3,648,275	$3,460,131		$0	$0	$0	$0	$0	-$983,511	-$3,928,981		$2,195,915	$1,003,686,146
Actual Gas Costs (AGC)																		
				H														
Total PGA recoverable costs as filed			$846,429,461								$0		-$3,245,000			-$2,342,930	-$5,587,930	$840,841,531
Exclude amortization of annual reconciliation balance			-$13,521,730														$0	-$13,521,730
Plus amortization of pre-GCPP pipeline refunds			$114,770,082														$0	$114,770,082
Less transition costs			$6,633														$0	$6,633
Less take-or-pay costs			$54,046														$0	$54,046
Actual Gas Costs			$947,738,492	$0	$0	$0	$0	$0	$0	$0	$0	$0	-$3,245,000	$0	$0	-$2,342,930	-$5,587,930	$942,150,562
Sharing Results																		
Actual Gas Costs (AGC) minus Benchmark Gas Cost (BGC)			-$53,751,739	$0	$0	-$3,648,275	-$3,460,131	$0	$0	$0	$0	$0	-$3,245,000	$983,511	$3,928,981	$0	-$5,440,915	-$59,192,654
Nicor Gas Share of Savings (Cost) at 50%			$26,875,870	$0	$0	$1,824,138	$1,730,066	$0	$0	$0	$0	$0	$1,622,500	-$491,756	-$1,964,491	$0	$2,720,457	$29,596,327
Customer Share of Savings (Cost) at 50%			$26,875,870	$0	$0	$1,824,138	$1,730,066	$0	$0	$0	$0	$0	$1,622,500	-$491,756	-$1,964,491	$0	$2,720,457	$29,596,327
Total Surcharge (Refund) = Change in Actual Gas Costs + Change in Savings/2				$0	$0	$1,824,138	$1,730,066	$0	$0	$0	$0	$0	-$1,622,500	-$491,756	-$1,964,491	-$2,342,930	-$2,867,473	
Additional Refund (-) to Flow 1/2 of Revised Storage Decrement Benefit to Customers																	-$9,693,734	A
Total Surcharge (Refund) after Additional Refund to Flow 1/2 of Revised Storage Decrement Benefit to Customers																	-$12,561,207	